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Ontario
Publications

ONTARIO
NORTHLAND
TRANSPORTATION
COMMISSION

1988

ANNUAL
REPORT



ABOUT THE COVER:

The paintings featured in this Annual Report are from the *Northland Collection*, Ontario Northland's Collection of visual art by northern Ontario artists. These paintings were chosen because of their depiction of typical northern Ontario scenes. There is a short biography of each artist on the last page.

Cover:
Rocks Near Collins Inlet
Ivan Wheale



THE 88TH
ANNUAL REPORT
OF THE
ONTARIO
NORTHLAND
TRANSPORTATION
COMMISSION
FOR THE YEAR ENDING
DECEMBER 31, 1988



Ontario

Province of Ontario

Honourable David Peterson
Premier

Honourable René Fontaine
Minister
Northern Development

**ONTARIO NORTHLAND
TRANSPORTATION
COMMISSION**

J.W. Spooner,
Chairman,
Timmins

G.J. Gagnon,
Commissioner,
Hearst

R. Motlong,
Commissioner,
Sioux Narrows

W.B. Brayford,
Commissioner,
New Liskeard

R.G. Brisson,
Commissioner,
Cochrane

R.S. Lucenti,
Commissioner,
North Bay

M.D. Sinclair,
Commissioner,
Sudbury

E.T. Sutherland,
Commissioner,
Moose Factory

W.A. Keller,
Commissioner,
Mindemoya

**PRINCIPAL
OFFICERS**

P.A. Dymont,
President & CEO

D.E. MacDougall,
Vice President, Finance

R.S. Hutton,
Vice President,
Telecommunications and
Computer Services

K.J. Moorehead,
Senior Operating Officer - Ra

K.J. Wallace,
Senior Officer, Marketing
and Passenger Services

E. Marasco,
Senior Director,
Passenger Services

T. O'Connell,
Counsel



Ministry of
Northern Development
and Mines

The Honourable Lincoln M. Alexander
P.C., Q.C., C.St.J., B.A.
Lieutenant-Governor of the Province of Ontario

May it please your Honour:

I beg leave to present the 88th Annual Report of the Ontario Northland
Transportation Commission for the year ending December 31, 1988.

Respectfully submitted,

René Fontaine
Minister of Northern Development

1989



The Honourable René Fontaine
Minister of Northern Development
Parliament Buildings, Toronto, Ontario

Sir:

I beg to submit the Annual Report for the year 1988 of the Ontario Northland
Transportation Commission, and I have the honour to be, Sir,

Yours faithfully

J.W. Spooner
Chairman, ONTC

1989

President's Report

In 1988, the ONTC continued to play a vital role in "bringing the North together" for both business and pleasure.

The services provided by rail, air, marine, bus, trucking, and telecommunications are essential to the economic well being of northern Ontario, and provide a business link to southern Ontario, and as such to all other parts of the world.

However, I think it is worth noting that many of our services are also the largest tourist attractions in the areas they serve. The Polar Bear Express has become a tourist destination for people from all over the world. The M.S. Chi-Cheemaun and the M.V. Chief Commanda II are also major tourist attractions in the Georgian Bay and North Bay areas. While providing essential transportation services to businesses and residents, they also encourage tourists to visit these communities and to stay at least an extra day. This has an important economic spin-off for area hotels, restaurants and other service facilities.

As a northern company, managed by northerners, and serving the people of northern Ontario, we are proud that our links between northern communities and to the rest of the world generate an even larger tourism industry.

With the opening of the new headquarters in North Bay, the ONTC also looked to the future of the region by investing in an unique and ambitious art collection. This growing and carefully selected collection has focused on artwork by northern artists with particular emphasis on those from the area we serve.

Today the collection features over 300 paintings, wallhangings and sculptures by 90 artists. Many of the works have been placed in common areas of the new headquarters. Twenty-four works are on show at the ONTC office area in Union Station in Toronto, and others are located in various facilities throughout the region.

Our efforts to support northern Ontario artists were rewarded with the 1988 Award of Merit from the Ontario Association of Art Galleries. This award of merit is presented annually in recognition of a corporation's "exemplary support" of visual artists. Past recipients have included Suncor and the Toronto Dominion Bank. We are proud to feature seven of these paintings in this Annual Report.

We will further document the history of the region in 1989 with the publication of a book on ONTC's role in the

development of northern Ontario, and with the upgrading of a small museum in Moosonee and the development of a new ONTC museum and archives in North Bay. These will be of interest to staff and tourists, as well as to researchers, historians and educators.

As we approach our 90th anniversary year, it is a pleasure to report that our level of service is constantly being improved with substantial advances in technology.

The first step of a four-phase plan to provide a fibre optics cable link between Timmins and North Bay was completed this year. This link will provide a faster, more economical and reliable service with higher signal quality. Upgrading of other telecommunication systems has allowed us to offer a larger number of services to many communities.


In addition, the ONTC has become the manufacturer of some of the most modern inter-city coaches in North America. Three new rail cars underwent final testing in 1988. They will be put into service early in the new year. These cars are the first in a major \$25 million project. The stripping and reconstruction was all

completed in our shops. We anticipate that with the expertise we have acquired using this specific modern technology, we will eventually be able to market this service to other railways.

We continue to invest in the region with other improved services and capital construction. This has the dual objective of improving our plant and stimulating other investment and confidence in the North. A new Intercity Intermodel Rail/Bus Terminal was completed and opened in Englehart during 1988, and the Timmins Station was completely renovated. In addition, the \$9.5 million project for pensioners and other seniors adjacent to the new headquarters opened and the 133 units were fully rented by October. The complex, an investment of the Employees Pension Fund, is run as a commercial venture.

An elaboration of our 1988 activities is provided on the following pages.

Respectfully submitted,



Peter A. Dymant
President & CEO

Front Door
Bruce St. Clair



Telecommunications

The ONTC telecommunications systems form an important link with Bell Canada and with CN/CP in providing a telecommunications network for the North. The Branch provides long distance service, WATS, private line voice and data, CBC program and video telex and telegraph services to northern Ontario. It also is the provider of local telephone service to Moosonee, Moose Factory and the Temagami and Marten River areas.

As in 1987, message growth continued to increase dramatically. In fact, during 1988, an unprecedented 11.6 million toll messages were processed, an increase of 14 percent over last year's 15 percent increase. This growth is the result of the implementation of further reductions to message toll and WATS rates.

Expenses were held to an increase of 3.5 percent, and overall revenue increased by 5 percent, resulting in a net revenue increase of 8 percent.

Several major projects were completed in 1988, including a modern digital switching unit, Phase I of a fibre optic cable link, custom calling features in two communities, and innovative changes in special services.

In Timmins, telephone operator services were transferred from an analog SP-1 Toll Switch, to the state-of-the-art DMS 200 Digital switching unit. This transfer provided an increase in the efficiency of operation, improved service, and new features for customers.

The first step of a four-phase plan to provide a fibre optics cable link between Timmins

and North Bay was also completed this year. Sixty km of cable was laid along the Commission's right-of-way between Timmins and Porquiss Junction. Engineering work has already begun on Phase II which will extend the fibre optic link another 97 km to Swastika in 1989. The long-term plan is to extend digital facilities from North Bay to Hearst.

Fibre optics use bursts of laser light to send messages through fine glass strands. They are smaller and lighter than conventional cable, can carry more information faster, more economically, and with higher signal quality and reliability than conventional circuitry.

A successful marketing thrust launched custom calling features in Moosonee and Moose Factory. Another successful product line was

introduced when the Branch became a distributor for the Sharp line of laptop computers and facsimile machines.

Several innovative changes relating to special services were implemented in 1988. Telex rates were unbundled, providing customers the option of providing their own terminal equipment. In addition, a new rating structure was developed to better associate the value and diversity of services provided with actual costs.

As the 1990's approach, the Telecommunications Branch continues to be committed to keeping pace with the technological advances that are required to provide a modern, quality service to its clientele. It is actively pursuing new opportunities to better serve the communities of northern Ontario.

Home From School
Joan Duffy-Nabb



Land Passenger Services

The Passenger Services Division provides land transportation for residents and plays an important role in bringing tourists to the region. This Division is responsible for all regular passenger trains, the Polar Bear Express, all bus operations, including charters and tours, station facilities, and attaining and maintaining passenger equipment. In addition, it operates the Hannah Bay Goose Camp and is responsible for marketing all these services.

All regular passenger trains have shown ridership increases of approximately 8 percent from 1987.

Ridership on the Polar Bear Express decreased 4.2 percent from 1987. ONTC through its Tourism Development Branch, is endeavoring to improve or foster the improvement on the Moosonee/Moose Factory for tourists, to encourage increased usage.

The Hannah Bay Goose camp is located 45 air miles due east of Moosonee. The facility is

particularly popular with American hunters and photographers, and 1988 was no exception to the traditional annual achievement of major bookings.

As predicted, the North American bus industry, including that of the ONTC, has continued to experience an overall decline in scheduled service ridership. However, this year's decline of 3 percent is considerably lower than that of previous years, hopefully signalling stabilization of regular ridership. Tours and charters have continued to be successful as reflected by a 10 percent increase in their revenue. Overall bus revenues increased by 4 percent, and expenses were curtailed to 4 percent over those of last year.

Although bus operations have shown considerable improvement over the past couple of years, it is still a challenge to strike a balance between client needs and a cost-effective streamlined service. The Division will continue to analyse and monitor each bus route and

frequency of service to bring the operation to a sound financial position.

Two major projects were completed in 1988 adding to the ONTC quality of service and the economy of Timmins and Englehart. A modern intercity intermodel Rail/Bus Terminal was completed and opened in Englehart in October at a total cost of \$1.5 million. The new building provided 14,000 square feet, a bus canopy and special construction for handicapped access. In addition, the Timmins station was completely renovated with a new customer/BPX counter, a general office area with some retail rental space, and a sheltered bus canopy. The cost of this project was \$700,000.

In North Bay, site grading for the proposed North Bay Intermodel Passenger Terminal was completed making way for the construction of a new facility starting in 1989. It is also planned to begin major renovations to the Cochrane

station next year.

The New Passenger Services branch of the Passenger Services Division continues with the project management and coordination of the GO Transit car reconstruction project. In all, 20 commuter rail car shells are being converted to intercity coaches. The first three cars and one auxiliary power unit (APU) were completed, launched and preservice road-tested in 1988. The new equipment will be introduced to the "Little Bear" train service between Cochrane and Moosonee early in the New Year. Four more cars are expected to be completed and placed in service by the end of 1989. These refurbished cars represent the most modern, long distance rail passenger cars in North America. The conversion process is using state-of-the-art technology to reconstruct the cars' interiors, sub-systems, electrical heating and air-conditioning systems. The APU's which provide electrical power for the trains, will replace the last vestiges of steam on the ONTC.

The Solution
Sheila Langlois



Rail Services

The Rail Services Division provides the trains for land passenger and carload freight demands. It has three components - Transportation, Mechanical and Engineering.

The Transportation Department is responsible for the scheduling, control and operation of all trains on the system, as well as the operation of various yards. The Mechanical Department handles the maintenance, repair, servicing, cleaning and inspection of all locomotives, freight cars, passenger cars and other non-revenue equipment on Ontario Northland's lines. The Engineering Department undertakes the construction, maintenance and repair of all

track, bridges, signal systems and culverts, and performs some railway building construction.

The Mechanical Department, under a contract basis to the Land Passenger Division, handles conversion of commuter units to intercity coaches. Two coaches and one snack car were converted and an auxiliary power unit (APU) was completed in 1988. Using state-of-the-art technology, the Division's mechanical facilities are able to complete any mechanical rebuild, refit, repair or modification requirement.

Rail Services are responsible for maintaining and upgrading 1,000 km of track, a fleet of

approximately 700 freight cars, 33 diesel electric locomotives and 42 passenger cars. In 1988, this included completing one-half of a 3,000 h.p. locomotive overhaul program, the finalization of the low temperature protection system installation and a further move towards more preventative and less breakdown maintenance.

In addition, the Division continued to focus on improving technical and safety training.

During the year, 16.5 miles of worn mainline was replaced with new continuous welded rail. A total of 43,000 track ties were replaced along with 10 sets of switch ties, and

some 50,000 tons of rock was crushed and distributed at various locations to provide for the maintenance of the ballast section and to facilitate surfacing and lining operations. Construction on two major track additions at Englehart and Moosonee was also started this year.

A new Stores facility at Englehart and final track connections to the building were completed. In addition, significant capital improvements were made to the Cochrane yard to facilitate the construction of new passenger equipment for the excursion train.

House Cobalt
Caroline MacArthur



norOntair

The objectives of the government in setting up norOntair in 1973 were to reduce the isolation of northern Ontario, to enhance the industrial and commercial development of the region, and to bolster the private sector air business. The original mandate was to set up an infrastructure to operate an airline, to set standards and to determine fares and schedules.

norOntair has met these goals and completed its mandate. In view of a move to

deregulation and a more competitive environment, the ONTC, in 1987, called for proposals from qualified carriers to determine to what extent, if any, the private sector would be prepared to assume some or all of the norOntair routes. Based on current activity, it seems at this time prudent to consider selling the Dash 8 aircraft and responsibilities but to retain all other norOntair roles to continue strengthening the North. Negotiations are underway.

The successful bidder was Air Ontario of London, who was prepared to take over the Dash 8 aircraft and routes. This sale and transfer of routes was scheduled to take place in October of 1988, however, for various reasons the transfer has been deferred until 1989.

In order to maintain the continuity of service, the ONTC purchased one of its contractors, Air Dale, in November, 1988. At the same time a contract was entered into with Skyservices,

formally a subsidiary of Air Dale, to perform maintenance work on both Dash 8 and four Twin Otter aircraft at Sault Ste. Marie.

In 1988, norOntair continued to serve 21 communities with nine aircraft. These included two Dash 8's, six Twin Otter's and one Navajo. This year, the airline carried 108,000 passengers, an increase of nine percent over 1987.

Duquette Homestead
Tom Cummings



Marine Services

The Marine Services division operates the M.S. Chi-Cheemaun on Georgian Bay, the M.V. Chief Commanda II on Lake Nipissing and the M.V. Manitou II on James Bay.

The M.S. Chi-Cheemaun, a passenger/vehicle ferry connecting Tobermory on the Bruce Peninsula to South Baymouth on Manitoulin Island, experienced a slight decrease in total number of passengers carried but vehicle numbers increased over 1987. The vessel again operated at capacity during the peak summer season. It is noteworthy that the decrease in passengers was in drive-on numbers while walk-on passengers increased. The vessel is a major contributor to the area's tourism activity.

Due to the physical constraints of the Chi-Cheemaun (600 passengers/143 standard North American vehicles) and the fact that it is operating at capacity during the summer months, the ONTC has determined there is an immediate need for a second passenger/vehicle ferry.

In North Bay, the M.V. Chief Commanda II cruise ship saw the positive results of schedule changes designed to make the service more attractive and accessible to both tourists and area residents. The newly introduced three-hour Sunday cruises along the North Bay shoreline and Callander Bay resulted in a 30 percent increase in passengers over the six-hour Sunday cruise offered to the French River in 1987.

Another innovative change

was the Friday evening "mystery" cruise offered during July and August.

A new advertising and marketing campaign with the theme "Take to the Lake" was also introduced and its success will be built upon in 1989. In addition, a new on-shore waterfront ticket and travel information booth was opened, making the "Chief" more visible and accessible to the general public.

And finally, to complete the year in style, the M.V. Chief Commanda II crew were proud to play an integral part in the return of the M.V. Chief Commanda I from Dokis Village. Once refloated from its home of 14 years, the old vessel was towed to the mouth of Dokis Bay where it was rafted alongside the Chief II

for the journey back to the original launch site in Callander.

The M.V. Manitou II resumed normal levels of traffic after an abnormally long season in 1987. Since 1975, when the vessel was put into service in Moosonee, the size and numbers of the vehicles carried has increased. In view of this, the barge will be lengthened and widened to accommodate more and larger vehicles.

It is expected that Marine Services will continue to grow and enhance the attractiveness of the regions they serve as a tourist destination. The use of the ferries for transportation is essential to residents and businesses in all three areas.

Night Hawk Marina
Catharine Cribbs



Freight Services

Ontario Northland's Freight Services include rail freight handled by the Rail Services and highway freight carried by Transport Services.

The bulk of the rail traffic comes directly from mining and forest industries, and as such is governed by fluctuations in these markets. In 1988, the total tonnage carried was close to five million, resulting in revenue of \$44,300,000, an increase of 1.6 percent over last year.

The mining industry sector accounted for 79 percent of the total carload freight handled, up slightly from last year. This increase is largely due to continuing strong

markets and prices for base metals. The shipment of forest industry products accounted for 15 percent of the total freight carried, a 4 percent decrease from 1987 volumes. Markets for newsprint and wood pulp remained strong, and shipments of these commodities increased 6 and 8 percent respectively. These increases, however, were offset by the termination of pulpwood shipments which were replaced with shipments of pulpwood chips at reduced volumes.

Continued highway competition and a changed marketing and pricing philosophy on the part of the

petroleum industry has helped erode the volume of northbound shipments of petroleum products. The continuing impact of regulatory reform has resulted in more intense competition and has put pressure on rate levels in many areas. It is anticipated that this will continue in 1989.

In 1986, the Star Transfer trucking operation joined with Express Services to form an integrated "Transport Services" for all highway transportation of freight.

The department has continued to show improvement. Although there was only a 3 percent increase in weight

carried, trucking revenue was \$4.5 million, an increase of 11.8 percent over 1987. Total revenues jumped 8.4 percent to \$5.9 million. This resulted in a bottom line improvement of 11.4 percent, in spite of a loss created by the demise of a major connecting carrier.

Transport Service employees maintained their excellent safety record with no lost-time injuries reported for the third consecutive year. The various terminals or departments have all received safety awards ranging from three to thirteen years with no lost-time injuries - a record of which management and staff are very proud.

FINANCIAL STATEMENTS

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Consolidated Balance Sheet
as at December 31, 1988

	Assets	1988 \$	1987 \$
Current Assets	Cash and short term investments	5,544,714	2,369,755
	Accounts receivable	17,268,323	16,915,071
	Due from Contributory Pension Fund	-	7,583,410
	Materials and supplies	12,672,810	10,554,808
	Prepaid expenses	600,440	628,633
		36,086,287	38,051,677
Long Term Investments - at cost	Government bonds (market value \$38,253,000; 1987 - \$30,765,000)	37,938,705	29,674,531
Other Assets - at cost	Self-insurance fund (note 4) (market value \$2,463,000; 1987 - \$2,137,000)	2,462,335	2,128,279
	Bus franchises	297,679	297,679
	Investment in Telesat Canada	150,000	150,000
	Deferred pension charge (note 3)	4,626,020	2,694,724
		7,536,034	5,270,682
Investment in Property - at cost		185,220,330	176,513,976
less accumulated depreciation (schedule 1)		266,781,356	249,510,866

Approved on behalf of the Commission:



J. W. Spooner
Chairman



P.A. Dymert
President and CEO

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Consolidated Balance Sheet
as at December 31, 1988

	Liabilities and Equity	1988 \$	1987 \$
Current Liabilities	Accounts payable and accrued charges	<u>23,191,047</u>	<u>19,823,779</u>
Deferred Revenue (note 6)		<u>1,075,716</u>	<u>1,272,956</u>
Provision for Self Insurance (note 4)		<u>2,462,335</u>	<u>2,128,279</u>
Long Term Debt	Loan from Province of Ontario non-interest bearing	<u>35,207,935</u>	<u>35,207,935</u>
Province of Ontario Equity	Contributed surplus	18,357,776	20,772,165
	Retained income	<u>186,486,547</u>	<u>170,305,752</u>
		<u>204,844,323</u>	<u>191,077,917</u>
		<u>266,781,356</u>	<u>249,510,866</u>

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Consolidated Statement of Income
for the year ended December 31, 1988

		1988 \$	1987 \$
Operating Revenues	Commercial (schedule 3)	93,091,805	90,285,299
	Non-Commercial (schedule 4)	17,738,645	15,595,650
Total operating revenues		110,830,450	105,880,949
Operating Expenditures	Commercial (schedule 3)	83,205,726	80,290,330
	Non-Commercial (schedule 4)	39,803,894	37,685,672
Total operating expenditures		123,009,620	117,976,002
Loss from operations before the following		12,179,170	12,095,053
Investment Income	Interest expense	(169,576)	(203,337)
	Interest earned	4,254,310	3,531,632
	Gain on sale of bonds	-	284,640
Net investment income		4,084,734	3,612,935
Net loss before Government reimbursement		8,094,436	8,482,118
Government reimbursement (schedule 2 and note 5)		24,275,231	24,773,935
Net income for the year		16,180,795	16,291,817

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Consolidated Statement of Retained Income
for the year ended December 31, 1988

	1988 \$	1987 \$
Balance, beginning of year	170,305,752	154,013,935
Add net income for the year	<u>16,180,795</u>	<u>16,291,817</u>
Balance, end of year	<u><u>186,486,547</u></u>	<u><u>170,305,752</u></u>

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Consolidated Statement of Contributed Surplus
for the year ended December 31, 1988

	1988 \$	1987 \$
Balance, beginning of year	20,772,165	22,832,714
Add:		
- Purchase of Air-Dale Limited (note 8)	500,100	-
- norOntair aircraft and associated equipment	-	20,690
- Capital expenditures of The Owen Sound Transportation Company, Limited	<u>-</u>	<u>33,405</u>
	21,272,265	22,886,809
Less: depreciation charges for the year	<u>2,914,489</u>	<u>2,114,644</u>
Balance, end of year	<u><u>18,357,776</u></u>	<u><u>20,772,165</u></u>

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Consolidated Statement of Changes in Financial Position
for the year ended December 31, 1988

		1988 \$	1987 \$
Operating Activities	Cash provided from (used in) operations (see below)	429,496	(8,799,916)
	Government reimbursement	24,275,231	24,773,935
		<u>24,704,727</u>	<u>15,974,019</u>
Financing Activities	Capital reimbursement from the Province	<u>500,100</u>	<u>54,095</u>
Investing Activities	Net investment in fixed assets	(21,904,278)	(13,038,074)
	Purchase of bonds	(8,131,750)	(6,913,125)
	Purchase of Air-Dale Limited (note 8)	(500,100)	-
	Proceeds from sale of bonds	-	1,504,750
	Proceeds from sale of fixed assets	922,850	550,586
	Contributory Pension Fund repayment (advance)	7,583,410	(7,056,981)
		<u>(22,029,868)</u>	<u>(24,952,844)</u>
Increase (decrease) in cash and short term investments during the year		3,174,959	(8,924,730)
Cash and short term investments, beginning of year		<u>2,369,755</u>	<u>11,294,485</u>
Cash and short term investments, end of year		<u><u>5,544,714</u></u>	<u><u>2,369,755</u></u>
Cash provided from (used in) operations is derived as follows:			
Net loss before Government reimbursement		(8,094,436)	(8,482,118)
Add (deduct):	Depreciation	9,886,957	8,043,199
	Amortization and gain on sale of bonds	(132,424)	(401,127)
	Gain on sale of fixed assets	(26,272)	(112,143)
	Increase in accounts receivable	(353,252)	(2,343,245)
	Increase in material, supplies and prepaids	(2,089,809)	(4,940,072)
	Increase in accounts payable	3,367,268	2,305,182
	Amortization of deferred revenue	(197,240)	(174,868)
	Increase in deferred pension charge	(1,931,296)	(2,694,724)
Cash provided from (used in) operations		<u><u>429,496</u></u>	<u><u>(8,799,916)</u></u>

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Schedule of Investment in Property
as at December 31, 1988

Schedule 1

		1988 \$	1987 \$
Rail	Roadway	111,116,575	109,514,298
	Buildings	21,100,389	20,675,531
	Equipment	40,869,914	40,673,625
Telecommunications		52,843,192	55,520,021
Buses		2,662,488	2,315,162
Boats		927,413	927,413
norOntair	Aircraft	15,942,700	15,542,700
	Other	3,940,188	3,940,188
Star Transfer Limited	Vehicles	1,557,999	1,881,825
	Other	1,002,085	987,118
The Owen Sound Transportation Company, Limited	Vessel	9,898,933	9,898,933
	Other	380,938	380,938
Gross investment in property		<u>262,242,814</u>	<u>262,257,752</u>
Less accumulated depreciation		<u>107,560,983</u>	<u>100,936,803</u>
Net investment in property		<u>154,681,831</u>	<u>161,320,949</u>
Under construction		<u>30,538,499</u>	<u>15,193,027</u>
		<u><u>185,220,330</u></u>	<u><u>176,513,976</u></u>

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Schedule of Government Reimbursement
for the year ended December 31, 1988

Schedule 2

		1988 \$	1987 \$
From Province of Ontario			
	Cochrane - Moosonee branch line	7,870,004	8,410,509
	Main line passenger train	5,993,035	5,750,070
	Northlander (note 5)	4,057,715	3,921,904
	Air services - norOntair	4,338,347	4,573,597
	Moosonee ferry	<u>66,561</u>	<u>34,468</u>
		22,325,662	22,690,548
The Owen Sound Transportation Company, Limited		<u>(30,359)</u>	<u>67,387</u>
Total Provincial Government reimbursement		22,295,303	22,757,935
Federal Government reimbursement (note 5)		<u>1,979,928</u>	<u>2,016,000</u>
Total Government reimbursement (note 5)		<u><u>24,275,231</u></u>	<u><u>24,773,935</u></u>

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Schedule of Commercial Operations
for the year ended December 31, 1988

Schedule 3

		1988 \$	1987 \$
Rail Freight Services	Revenue	44,792,443	44,309,711
	Expenditures	44,596,306	40,885,360
	Income from operations	196,137	3,424,351
Telecommunications	Revenue (note 7)	37,823,330	36,190,536
	Expenditures	26,951,955	28,513,618
	Income from operations	10,871,375	7,676,918
Bus Services	Revenue	4,149,923	3,862,927
	Expenditures	4,469,499	4,050,776
	Loss from operations	(319,576)	(187,849)
Transport/Express Services	Revenue	5,917,785	5,457,548
	Expenditures	6,554,031	6,225,265
	Loss from operations	(636,246)	(767,717)
Marine Services (North Bay)	Revenue	272,911	312,457
	Expenditures	512,724	489,144
	Loss from operations	(239,813)	(176,687)
Tourist Facilities (Hannah Bay)	Revenue	135,413	152,120
	Expenditures	121,211	126,167
	Income from operations	14,202	25,953
Total Commercial Operations	Operating revenues	93,091,805	90,285,299
	Operating expenditures	83,205,726	80,290,330
	Income from operations	9,886,079	9,994,969

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Schedule of Non-Commercial Operations
for the year ended December 31, 1988

Schedule 4

		1988 \$	1987 \$
Rail Passenger Services	Revenue	5,587,690	5,116,233
	Expenditures	23,290,411	22,546,520
	Loss from operations	17,702,721	17,430,287
	Government reimbursement	19,900,682	20,098,483
	Net gain from operations	2,197,961	2,668,196
Air Services (norOntair)	Revenue	7,620,778	6,154,203
	Expenditures	11,947,104	10,712,083
	Loss from operations	4,326,326	4,557,880
	Government reimbursement	4,338,347	4,573,597
	Net gain from operations	12,021	15,717
Marine Services (Owen Sound)	Revenue	4,456,325	4,226,501
	Expenditures	4,425,966	4,293,888
	(Gain) Loss from operations	(30,359)	67,387
	Government reimbursement	(30,359)	67,387
		-	-
Marine Services (Moosonee)	Revenue	73,852	98,713
	Expenditures	140,413	133,181
	Loss from operations	66,561	34,468
	Government reimbursement	66,561	34,468
		-	-
Total Non-Commercial Operations	Operating revenues	17,738,645	15,595,650
	Operating expenditures	39,803,894	37,685,672
	Loss from operations	22,065,249	22,090,022
	Government reimbursement	24,275,231	24,773,935
	Net gain from operations	2,209,982	2,683,913

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Notes to Consolidated Financial Statements
December 31, 1988

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

These consolidated financial statements are prepared in accordance with generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Star Transfer Limited and The Owen Sound Transportation Company, Limited.

(b) Materials and supplies

With the exception of used rail, all materials and supplies are shown at cost. Used rail is shown at estimated utility value.

(c) Investment in property and depreciation

Fixed assets are stated at acquisition cost.

Depreciation is calculated on a straight-line basis over the estimated service lives of the assets.

The estimated service lives used for principal categories of assets are as follows:

Road-main line and branches	20 to 50 years
Railway diesel locomotives	25 years
Railway cars	33 years
Vessel	30 years
Telecommunications equipment	15 years
Aircraft	10 years
Boats	20 years
Vehicles	3 years
Buses	10 years

The Province of Ontario reimburses the Commission for the costs of certain fixed assets purchased for use in operations designated as non-commercial by the Province. The Commission records these assets at their original cost together with an offsetting credit to Contributed Surplus. Annual depreciation on these fixed assets is recorded as a reduction to Contributed Surplus.

(d) Income Taxes

As Crown Corporations of the Province of Ontario, the Commission and its wholly-owned subsidiaries are exempt from income taxes and accordingly no tax provision is reflected in operations.

2. CHANGE IN ACCOUNTING ESTIMATE

During 1988 the Commission reviewed the remaining useful lives of its road assets and changed the estimated service lives of these assets from 20-200 years to 20-50 years. As a result of this change, the depreciation expense for 1988 is increased by \$1,934,000 and net income decreased by the same amount.

3. PENSION PLAN

The Commission is the trustee for its contributory pension plan which covers all permanent staff.

The net cost of pension benefits is actuarially determined on the basis of management's best estimates using the projected benefit method pro-rated over the service lives of employees. The net cost of pension benefits includes the amortization over the remaining service lives of the plan members of the initial net pension surplus and the 1988 experience gain. Pension plan assets were valued at a market related value based on recognizing the difference between book and market values at each year end over a five year period.

The Commission's share of the net cost of pension benefits earned by employees during the year was \$1,268,451. In 1988 the Commission funded the amount of \$3,199,747. The excess of the funded amount over the net cost of benefits earned is recorded as a Deferred Pension Charge on the Balance Sheet.

The actuarial valuation prepared for accounting purposes as at December 31, 1988 disclosed a surplus of \$10,168,000 representing the excess of plan assets of \$188,538,000 over accrued pension benefits of \$178,370,000. This valuation assumed an expected rate of return on plan assets of 7 1/2 per cent and projected pay increase of 5 1/2 per cent.

4. SELF-INSURANCE

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annual contributions to the self-insurance fund consist of a \$100,000 premium paid by the Commission in addition to investment income earned on fund assets.

5. GOVERNMENT REIMBURSEMENT

In accordance with the Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines, certain operations of the Commission have been designated as non-commercial and receive annual operating subsidies, the details of which appear on Schedule 2.

The subsidy amount for the non-commercial rail operations, which consist of the Cochrane-Moosonee branch line and main line passenger train services, allows the Commission to earn an annual rate of return equal to the lesser of 9.325 per cent or the actual rate of return earned on the total of the Commission's commercial operations for the same year. For all other non-commercial operations shown on Schedule 2, the subsidies equal the operating losses for the year. A portion of the subsidy for the operating loss of the weekday passenger train service between North Bay and Toronto is received from the National Transportation Agency of Canada under section 261 of the Railway Act.

6. DEFERRED REVENUE

In 1985, the Commission received \$1,740,000 as full settlement for revenue lost through the rerouting of certain long distance telephone traffic. This amount is being amortized to income over the eight remaining years of the original agreement.

7. TELECOMMUNICATIONS REVENUE AGREEMENTS

The Commission has revenue-sharing agreements with Bell Canada and Northern Telephone Limited, subsidiaries of Bell Canada Enterprises Inc. These revenue sharing agreements may be terminated by either party after giving 180 days and 60 days prior notice, respectively. Approximately 73 per cent (1987 - 74 per cent) of telecommunications revenue depend on these agreements.

8. PURCHASE OF AIR-DALE LIMITED

In 1988, the Commission purchased Air-Dale Limited. The major assets of the company at the time of purchase were commercial air licenses, operation certificates and experienced flight personnel. With the purchase, the Commission through norOntair now provides the air transportation services and Air-Dale Limited is essentially an inactive company.

9. SUBSEQUENT EVENTS

(a) Mine Closures

In March 1988 one of the Commission's major customers announced that it will close its mining operations at two mines located in south-east Ontario by March 1990. Traffic at these two mines accounted for about 23 per cent of the Commission's rail freight revenue.

(b) Purchase of New Ferry

On February 25, 1989, The Owen Sound Transportation Company, Limited purchased a second vessel for use in its operations. The cost of acquiring, transporting and refurbishing the vessel is estimated to be approximately \$9 million. All costs will be paid by the Ontario Northland Transportation Commission and later reimbursed by the Ministry of Northern Development and Mines, in accordance with the Memorandum of Understanding between the Commission and the Ministry.

10. COMPARATIVE FIGURES

Prior year's figures have been reclassified where necessary to conform to the current year's presentation.

To the Ontario Northland Transportation Commission and to the Minister of Northern Development.

I have examined the consolidated balance sheet of the Ontario Northland Transportation Commission as at December 31, 1988 and the consolidated statements of income, contributed surplus, retained income and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Commission as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Toronto, Ontario
June 9, 1989

D.F. Archer, F.C.A.
Provincial Auditor.

The Artists

Catharine Cribbs, a resident of South Porcupine, grew up along the North Shore of Lake Huron. The rugged geography, with abundant rocks and lakes has had an underlying influence on her work. Cribbs works in a number of different media including watercolour, hand built clay sculptural forms and lino and woodblock prints.

Tom Cummings, born in Manitoba, now lives and works in North Bay. His work has received both national and international recognition and is represented in major galleries across Canada, as well as in numerous colleges and universities and in a host of private collections. Working mainly with oils, he has also used sculpture as a form of expression.

Joan Duffy-Nabb was born and educated in Kirkland Lake. She works mainly in watercolour, and pen and ink. Her work has been accepted in many juried shows and she has won several awards and honourable mentions. She is also featured in a number of public and private collections.

Sheila Langlois, born and raised in Kirkland Lake, has painted the "North" for the past thirty years. Although predominantly a water-colourist, she works and teaches in a variety of media. Langlois has had numerous solo shows, and has received many awards for her works.

Caroline MacArthur was born in Nova Scotia, and moved with her family to Cobalt in 1930. She is an active member of the Northern Ontario Art Association and is a retired teacher of art at the Northern College of Applied Arts and Technology. MacArthur has painted in many countries, but her greatest love is Cobalt with its lovely old buildings, mine shafts and open cuts.

Bruce St. Clair has lived and worked in the Lake Nipissing area since 1969. His work ranges from contemporary high realism to naturalism. He is fascinated with the way light often transforms simple objects and settings into things of elegant beauty. St. Clair works in the media of oil and watercolour.

Ivan Wheale was born in England and emigrated to Canada in 1957. Since 1975 he has lived and worked on Manitoulin Island. His work is included in 37 public and corporate collections including "The Royal Collection" in Windsor Castle in England. He has received numerous awards for his work and an honorary Doctor of Law from Laurentian University.

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Publication



ONTARIO NORTHLAND TRANSPORTATION COMMISSION

1989 ANNUAL REPORT



THE 89th
ANNUAL REPORT
OF THE
**ONTARIO NORTHLAND
TRANSPORTATION
COMMISSION**
FOR THE YEAR ENDING
DECEMBER 31, 1989



Ontario

PROVINCE OF ONTARIO

HONOURABLE DAVID PETERSON
PREMIER

HONOURABLE RENÉ FONTAINE
MINISTER,
NORTHERN DEVELOPMENT

**ONTARIO NORTHLAND
TRANSPORTATION
COMMISSION**

M.D. Sinclair
Chairman,
Sudbury

W.B. Brayford
Commissioner,
New Liskeard

R.G. Brisson
Commissioner,
Cochrane

L.P. Compton
Commissioner,
Keewatin

M. Freedman
Commissioner,
Kirkland Lake

G.J. Gagnon
Commissioner,
Hearst

W.A. Keller
Commissioner,
Mindemoya

R.S. Lucenti
Commissioner,
North Bay

V.M. Power
Commissioner,
Timmins

E.T. Sutherland
Commissioner,
Moose Factory

F. Wapachee
Commissioner,
Moose Factory

**PRINCIPAL
OFFICERS**

P.A. Dymont
President & CEO

D.E. MacDougall
Vice President, Finance

R.S. Hutton
Vice President,
Telecommunications and
Computer Services

K.J. Moorehead
Vice President, Rail Services

K.J. Wallace
Vice President, Administration

E. Marasco
Vice President, Passenger Services

T. O'Connell
Counsel





ONTARIO

The Honourable Lincoln M. Alexander
P.C., Q.C., C.St.J., B.A.
Lieutenant-Governor of the Province of Ontario

May it please your Honour:

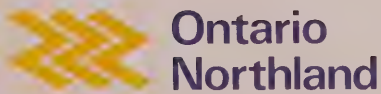
I beg leave to present the 89th annual report of the Ontario Northland
Transportation Commission for the year ending December 31, 1989.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'René Fontaine'.

René Fontaine
Minister of Northern Development

1990



The Honourable René Fontaine
Minister of Northern Development
Parliament Buildings
Toronto, Ontario

Sir:

I beg to submit the annual report for the year 1989 of the Ontario
Northland Transportation Commission, and I have the honour to be, Sir,

Yours faithfully,

A handwritten signature in dark ink, appearing to read 'M.D. Sinclair'.

M.D. Sinclair
Chairman, ONTC

1990



Throughout almost 90 years of service, Ontario Northland has been the predominant supplier of essential transportation and communication services across the province's vast northern territory. In 1989 we created new Development and Tourism departments to enable the company to take a high-profile leadership position in both of these fields.

Our progress in Development has been exciting. Construction will start on a new rail/bus terminal in Cochrane with a small but high-quality hotel component in 1990. We've also begun work on a new bus terminal/office complex building in Kirkland Lake. Downtown development on land formerly occupied by the ONR rail yard is proceeding in Timmins and we are examining opportunities for various projects in Moosonee. In 1990 we will officially open our new, state-of-the-art, rail/bus terminal in North Bay.

Several other projects are in the early study stages.

Although our rail, bus, marine and air services have always figured prominently in our northern tourism industry, the creation of our "Be My Guest In Northern Ontario" marketing and promotion campaign has generated considerable consumer awareness and consideration for our unique northern tourist experiences. Though the campaign is targeted specifically toward Chi-Cheemaun, Nindawayma and Chief Commanda marine services, Northlander and Polar Bear Express Services and various elements of norOntair and ON Bus products, we have worked closely with our regional tourism associations to promote all of the North's tourist amenities.

In telecommunications, we're ahead of schedule with the laying of the fibre optic cable between Timmins and North Bay and we continue to provide quality communication

services with state-of-the-art equipment.

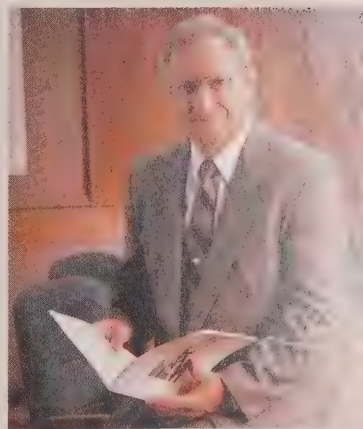
In 1989 our shops in North Bay continued the construction of new rail cars turning out three passenger cars and the first of three electric auxiliary power units.

An early retirement program was developed to take effect in the spring of 1990 to trim our work force to face leaner and more challenging conditions for the rest of the decade and respond to the expected loss of iron ore pellet traffic. Opportunities will be created to train and promote younger staff to help Ontario Northland take advantage of new and exciting commercial ventures for the future.

Respectfully
submitted,



Peter A. Dymont
President and CEO



BE MY GUEST
IN NORTHERN ONTARIO

SOYEZ MON INVITÉ

作我的客人

登上北極熊快車



WILLKOMMEN

SII UN GRADITO OSPITE
A BORDO DEL POLAR BEAR EXPRESS

北へロマンを乗せて

「ヤニクー・ヘア」エクスプレス快車の旅



The tourism industry in the North, though an important component of the northern economy, has traditionally lagged behind the resource industries in terms of investment and development. Historically, tourism was seen as an employment support mechanism during periods of market decline in mining and forest products.

Ontario Northland plays a vital role in tourism through its ferries, the Chi-Cheemaun and Nindawayma, the Lake Nipissing tour boat, Chief Commanda, the Northlander, Little Bear and Polar Bear Express trains, air services with norOntair and highway coach services with Ontario Northland Bus.

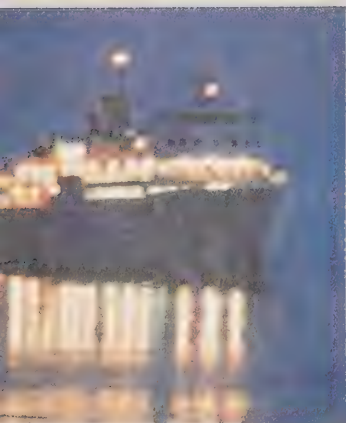
In the past, these services were marketed on an individual basis with little product or promotion integration or co-operative marketing ventures with regional tourist associations or the Ministry of Tourism.

The company's new department of Tourism was created in 1989 to produce and manage a wide-ranging marketing program which would "sell" the entire region from Tobermory to James

Bay in conjunction with Ontario Northland travel products. Beginning with a major production of more than 14,000 up-to-date still photos of tourism subjects throughout the region, Tourism worked closely throughout the summer with its advertising and production agencies to create an array of print and broadcast materials targeted to a selection of audiences which market research indicated had both the demand for and the ability to buy Northland vacations.

This was not expected to be an easy market challenge. With traffic off an estimated 17 per cent during the 1989 season and a further forecast decrease of an additional 20 per cent in 1990, the staff worked toward a 1990 target of holding the '89 market penetration.





The "Be My Guest in Northern Ontario" campaign was first introduced to the management of our local tourist regions who provided immense cooperation in trade shows, tourist information operations and utilization of the "Be My Guest in Northern Ontario" materials in their own promotional efforts. Through increased direct sales activities, direct mail and more efficient literature distribution through a new co-venture with the Association For The Mentally Retarded, Tourism marketing was staged to maximize the reach and frequency of its marketing efforts to highly-targeted consumer markets.

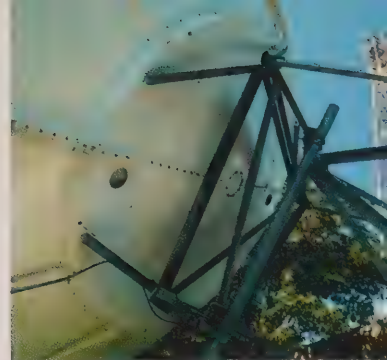
A sub-division of Tourism called "Attractions" was created initially to assist in the improvement of the tourist offerings in

Moosonee and Moose Factory. With a full-time resident manager, the operation has started several initiatives to improve the Polar Bear Express tourist experience and is working closely with Northern Development, the ministries of Natural Resources and Tourism, the Moosonee Development Area Board, Chamber of Commerce, the Moose Band Cree, MoCreebeck and the Ontario Heritage Foundation to plan and develop this vital tourism revenue resource for the future.

With the advent of GST, the continued high international value of the Canadian dollar, high interest rates and uncertain economic conditions, the northern tourism industry and Ontario Northland will continue to face strong competition for the tourist dollar for the balance of the decade. But we believe that with escalating demand for uncrowded, unhurried recreation opportunities in clean air, water and forest conditions we can hold and increase our market share through general improvement of the northern tourism plant and aggressive, professional marketing.







Another year of growth for Ontario Northland Telecommunications. Though there was a significant increase in the volume of long-distance traffic, rate reductions resulted in a decrease in revenue for the year.

Among the projects undertaken toward the satisfaction of continually-increasing demand for service in the North were the installation of a Datapac switching centre in Timmins and completion of phase II of the fibre optic link between Timmins and North Bay. The fibre optic cable now reaches from Timmins to Swastika and will extend to Temagami in 1990.

The soon-to-be-commissioned SCADA (Supervisory Control And Data Acquisition) system in Timmins is a computer-based means of monitoring our entire

telecommunications network which will provide a new level of instant system/management information.

We are just beginning to realize the revenue potential for the sale or lease of associated business products through successful marketing of Sharp laptop computers and FAX machines in addition to our newest market entry, the Motorola line of communications equipment.

The demand for more efficient, more effective communication services continues to grow throughout the North at an unprecedented rate. We will continue to meet and exceed the demands of the marketplace through the application of the latest and best technologies and the expansion of vital support services.

The past year was an uncertain time for rail passenger travel. While the Northland night train (Cochrane to Toronto) and the Northlander day train (Timmins to Toronto) experienced decreased ridership, the Little Bear (regular service Cochrane to Moosonee) showed an increase of almost nine per cent, probably due to the enhanced passenger comfort and service provided by the new rail cars built in the Ontario Northland shops in North Bay. During the summer season, the Polar Bear express ridership dropped about five per cent from the previous year reflecting the decrease in general tourist traffic in the region. VIA announced the cancellation of the Northland train service in the fall.



Strong, new marketing initiatives coupled with the creation of new travel products such as fall colour tours which integrate rail, bus and marine services will help to increase rail passenger demand in the future.

Bus services, in general, turned in revenue increases despite a slight decline in scheduled service ridership. Careful monitoring of changing travel demand patterns and the maintenance of the highest-possible level of customer comfort and safety should keep Ontario Northland bus services competitive for the future.

Passenger comfort and service in stations and terminals are critical elements in maintaining market share and attracting new business. Our new facilities in Timmins, Englehart and Toronto will be complemented in the near future with major station developments in Cochrane and North Bay.

The James Bay goose hunting tourism business faltered somewhat and our Hannah Bay operation was no exception. Since this is probably due to the

advancing age of the repeat customer base, an aggressive marketing campaign was developed to co-promote the region and ultimate hunting experience with the James Bay Frontier Travel Association.

The first three cars and one auxiliary power unit of the new train being constructed in the Ontario Northland shops in North Bay went into successful service between Cochrane and Moosonee on February 1st. Two additional passenger cars were finished later in the year. When the project is complete, 20 all-electric passenger and food-service cars and three power units will be in service. The design and quality of workmanship makes these cars some of the best in North America.

In all aspects of our operations, we continue to improve the level of passenger comfort and service and provide the highest quality experience for the regular traveler and tourist alike. In the highly-competitive conditions of the future, Passenger Services is increasingly better positioned to maintain and increase market share.





With the responsibility for 1,000 km of track, a fleet of 700 freight and 42 passenger cars and 33 locomotives, rail services people keep the railroad running in the searing and bug-infested heat of summer and the bone-chilling, sub-zero winter conditions. Railroading in these extreme conditions creates engineering challenges not found in more moderate climates.

With a relatively short summer season available for maintenance and repair, track, bridges and almost every other railroad element become the focus of energetic attention. Major projects included the complete removal of rail and associated structures from Timmins and the construction of an intermodal freight terminal.

Some sectors of our vital rail freight business will decline with the planned closing of both the Sherman and Adams mines in 1990. Large scale reorganization and

personnel reductions will be necessary in all facets of rail operations and administration.

Potential new mineral operations, the possibility of a unique northern opportunity for the disposal of Toronto's solid waste and the continuing increase in shipments of sulphuric acid represent possible new business for the coming year.



THE COMMUNITY CONNECTION

Ontario Northland's ventures into development were undertaken to realize the potential of the company's extensive land holdings, investment capability and the development expertise of company and allied northern staff.

Using these resources and working alone or in joint venture with northern private capital developers, we already have an impressive array of projects under way.

Work proceeds on a potential 14-acre downtown development in Timmins which, when completed, could contain office, retail, hotel, convention centre and retirement residence components.

With expected completion for the 1991 Polar Bear season, the Cochrane bus/train station development is now in the architectural design stage. The \$3-million project, while retaining the architectural flavour of the original 1910 building, will contain a new 23-room hotel, restaurant and passenger areas. The facility will relieve some of the congestion of the

Polar Bear Express excursion and provide much greater customer service and comfort year 'round.

In Kirkland Lake, tenders will soon be called for construction of a modern bus terminal with an additional 30,000 square feet of retail and office space. Completion is scheduled for early fall, 1991.

An August 1990 opening of North Bay's new rail/bus terminal will provide solutions to many of the city's "people-moving" problems as rail travel patterns change and increased vehicle traffic creates a need for a facility more accessible to large highway buses.

In many northern municipalities, Ontario Northland holds prime industrial property with development potential.

Ontario Northland Development staff are working closely with municipal Economic Development Departments to provide rail-serviced land as an important element in attracting new industry.

Ontario Northland Development is also playing a key role in a consortium of interests offering a northern garbage disposal solution to Metro Toronto.

From resources to tourism and manufacturing, transportation and commercial properties, the potential for Ontario Northland Development in the North appears to be unlimited.





Airline service in the North continues to change radically after de-regulation. Carriers, trying to establish new routes and schedules, initiated, changed or suspended services constantly and the rate of change accelerated with the fortunes of the northern economy.

norOntair was established in 1973 to ensure a basic level of scheduled air service was provided in the North. We continue to fill this role despite the fact that some of our service communities cannot generate commercially-viable passenger loads.

Though some subsidized service is, and will continue to be a fact, our goal is to maximize revenues over our entire route structure and reduce the need for support to the absolute minimum. In 1989 we substantially reduced the passenger subsidy rate.

To achieve our objective, schedules to many communities were improved during the year and Dash-8 service

extended to as many destinations as possible, including Fort Frances and Winnipeg. We're now competing effectively with business-class fares on Dash-8 routes and we've added a wide range of discount fares throughout the norOntair system and joint discount fares with Canadian Airlines and Air Canada carriers. As a result of these initiatives, norOntair recorded the highest-ever annual revenue of over \$9-million.

Since the demand for business air travel is tied so closely to the North's resource-based economy, the outlook is uncertain. However, we are developing new initiatives aimed at the high-end hunting and fishing tourist market with plans for co-marketing ventures with major outfitters. Test projects for specific target markets in conjunction with the "Be My Guest in Northern Ontario" campaign indicate potential for the generation of new tourism business from foreign sources.

By any measure 1989 was a successful operating year for Marine Services.

The addition of the Nindawayma to the Bruce Peninsula - Manitoulin Island service virtually eliminated lineups at the terminals and contributed to a total traffic increase of 11 per cent and the extended sailing season for the Chi-Cheemaun facilitated fall travel for both tourist and local traffic.

The Manitou II was widened and lengthened in the spring to accommodate increased truck, freight and construction equipment traffic to Moose Factory Island. Total traffic for the season increased by five per cent.

The Chi-Cheemaun and Nindawayma play a vital role in tourism development for the North and have become an essential part of summer holiday travel



for everyone traveling by motorcycle, family car, motorhome or tour bus. For this reason, the 1990 tourism marketing program puts considerable weight to these services in recognition of their potential drawing power for tourism on the Bruce Peninsula - Manitoulin Island and as feeders to all northern travel regions.

The Chief Commanda is the single most important tourist attraction in the Near North travel region and, for the coming season, will have new themed cruise products designed for a variety of passengers, expanded reservation and ticket distribution and a significantly enhanced marketing and promotion program.





Star Transfer trucking operations joined with Express Services in 1986 to provide an integrated approach to highway freight transportation.

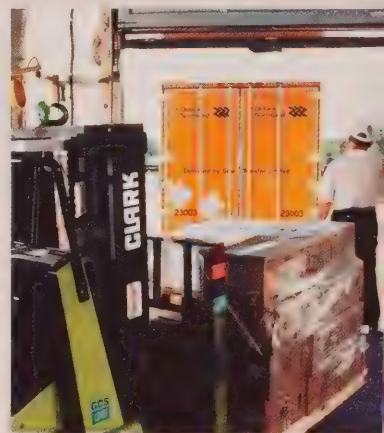
For the first time in four years there was no improvement in the division's operating position primarily because of the decline in the mining exploration and related supply industries and the demise of a major connecting carrier which had accounted for almost a million dollars in revenue the previous year.

Through replacement of ageing tractors, trailers and straight trucks, there was a general improvement in customer service and fleet maintenance.

Haulage to the new intermodal terminal, following the decommissioning of the Timmins rail yard made a significant contribution to revenue.

Transport Services expects the issuance of licenses for service to northwestern Quebec in the new year which will provide a substantial new business base in Rouyn/Noranda.

In addition, the company is investigating the revenue potential of hauling such diverse loads as solid waste, paper goods for re-cycling and specific dangerous commodities for which existing personnel are already trained and licenced.



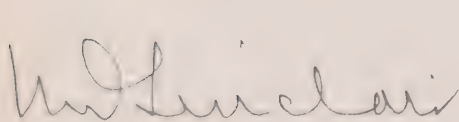
THESE THINGS
ARE NOT
FOR SALE



ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Consolidated Balance Sheet
as at December 31, 1989

		(dollars in thousands)	
Assets		1989 \$	1988 \$
Current Assets	Cash and short-term investments	8,374	5,545
	Accounts receivable	17,619	17,268
	Materials and supplies	12,869	12,673
	Prepaid expenses	<u>527</u>	<u>600</u>
		<u>39,389</u>	<u>36,086</u>
Long Term Investments - at cost	Government bonds (market value \$24,727; 1988 - \$38,253)	<u>24,530</u>	<u>37,939</u>
Other Assets - at cost	Self-insurance fund (note 3) (market value \$2,898; 1988 - \$2,463)	<u>2,832</u>	<u>2,462</u>
	Bus franchises	<u>298</u>	<u>298</u>
	Investment in Telesat	<u>150</u>	<u>150</u>
	Deferred pension charge (note 2)	<u>5,371</u>	<u>4,626</u>
		<u>8,651</u>	<u>7,536</u>
Investment in Property at cost less accumulated depreciation (schedule 1)		<u>207,918</u>	<u>185,220</u>
		<u>280,488</u>	<u>266,781</u>

Approved on behalf of the Commission:



M.D. Sinclair
Chairman



P.A. Dymont
President and CEO

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Consolidated Balance Sheet
as at December 31, 1989

		(dollars in thousands)	
Liabilities and Equity		1989	1988
		\$	\$
Current Liabilities	Accounts payable and accrued charges	<u>20,107</u>	<u>23,191</u>
Deferred Revenue (note 5)		<u>994</u>	<u>1,076</u>
Provision for Self-Insurance (note 3)		<u>2,832</u>	<u>2,462</u>
Long Term Debt	Loan from Province of Ontario non-interest bearing and with no specific terms of repayment	<u>35,208</u>	<u>35,208</u>
Province of Ontario Equity	Contributed surplus	<u>16,094</u>	<u>18,358</u>
	Retained earnings	<u>205,253</u>	<u>186,486</u>
		<u>221,347</u>	<u>204,844</u>
		<u>280,488</u>	<u>266,781</u>

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Consolidated Statement of Income and Retained Earnings
for the year ended December 31, 1989

(dollars in thousands)

	1989 \$	1988 \$
Operating Revenues (schedule 2)	142,573	136,787
Operating Expenses (schedule 2)	<u>128,437</u>	<u>124,691</u>
Operating Income	14,136	12,096
Investment Income	4,773	4,254
Interest Expense	<u>(142)</u>	<u>(170)</u>
Net Income for the year	<u>18,767</u>	<u>16,180</u>
Retained Earnings, beginning of year	<u>186,486</u>	<u>170,306</u>
Retained Earnings, end of year	<u><u>205,253</u></u>	<u><u>186,486</u></u>

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Consolidated Statement of Contributed Surplus
for the year ended December 31, 1989

		(dollars in thousands)	
		1989	1988
		\$	\$
Balance, beginning of year		18,358	20,772
Add:	Marine Services (Moosonee) barge upgrade	150	.
	Purchase of Air-Dale Limited	-	500
		18,508	21,272
Less:	Depreciation	2,414	2,914
Balance, end of year		16,094	18,358

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Consolidated Statement of Changes in Financial Position
for the year ended December 31, 1989

		(dollars in thousands)	
		1989 \$	1988 \$
Operating Activities	Cash provided from operations (see below)	<u>20,692</u>	<u>24,704</u>
Financing Activities	Capital reimbursement from the Province	<u>150</u>	<u>500</u>
Investing Activities	Investment in fixed assets	(32,438)	(21,904)
	Purchase of bonds	(1,190)	(8,132)
	Purchase of Air-Dale Limited	-	(500)
	Proceeds from sale of bonds	14,944	-
	Proceeds from sale of fixed assets	671	923
	Contributory Pension Fund repayment	-	7,584
		<u>(18,013)</u>	<u>(22,029)</u>
Increase in cash and short-term investments during the year		2,829	3,175
Cash and short-term investments, beginning of year		<u>5,545</u>	<u>2,370</u>
Cash and short-term investments, end of year		<u>8,374</u>	<u>5,545</u>
Cash provided from operations is derived as follows:			
Net Income for the year		18,767	16,180
Add (deduct):	Depreciation	6,655	9,887
	Amortization and gain on sale of bonds	(345)	(133)
	Gain on sale of fixed assets	-	(26)
	Increase in accounts receivable	(351)	(353)
	Increase in materials and supplies and prepaid expenses	(123)	(2,090)
	Increase (decrease) in accounts payable	(3,084)	3,367
	Amortization of deferred revenue	(82)	(197)
	Increase in deferred pension charge	<u>(745)</u>	<u>(1,931)</u>
Cash provided from operations		<u>20,692</u>	<u>24,704</u>

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Schedule of Investment in Property
as at December 31, 1989

Schedule 1

(dollars in thousands)

		1989 \$	1988 \$
Rail	Roadway	121,458	111,117
	Buildings	23,912	21,100
	Equipment	48,221	40,870
Telecommunications		57,096	52,843
Buses		3,162	2,663
Boats		967	927
norOntair	Aircraft	15,943	15,943
	Other	3,940	3,940
Star Transfer Limited	Vehicles	2,169	1,558
	Other	1,185	1,002
The Owen Sound Transportation Company, Limited	Vessels	19,811	9,899
	Other	381	381
Gross investment in property		298,245	262,243
Less accumulated depreciation		114,947	107,561
Net investment in property		183,298	154,682
Under construction		24,620	30,538
		<u>207,918</u>	<u>185,220</u>

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Schedule of Operating Revenues and Expenses
for the year ended December 31, 1989

Schedule 2

		(dollars in thousands)	
		1989 \$	1988 \$
Rail Services	Sales Revenue	52,210	51,647
	Government Reimbursement (note 4)	20,256	19,901
	Total Revenue	72,466	71,548
	Expense	71,065	69,154
	Income (loss) from operations	1,401	2,394
Telecommunications	Revenue (note 6)	39,337	38,039
	Expense	26,703	27,168
	Income (loss) from operations	12,634	10,871
Air Services	Sales Revenue	10,203	7,621
	Government Reimbursement (note 4)	4,500	4,338
	Total Revenue	14,703	11,959
	Expense	12,674	11,947
	Income (loss) from operations	2,029	12
Transport/Express Services	Revenue	5,328	5,918
	Expense	6,450	6,554
	Income (loss) from operations	(1,122)	(636)
Marine Services (Owen Sound)	Sales Revenue	5,126	4,456
	Government Reimbursement (note 4)	-	(30)
	Total Revenue	5,126	4,426
	Expense	5,608	4,426
	Income (loss) from operations	(482)	0

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Schedule of Operating Revenues and Expenses
for the year ended December 31, 1989

Schedule 2
(continued)

		(dollars in thousands)	
		1989	1988
		\$	\$
Bus Services	Revenue	5,086	4,349
	Expense	5,165	4,668
	Income (loss) from operations	(79)	(319)
Marine Services (North Bay)	Revenue	283	273
	Expense	506	513
	Income (loss) from operations	(223)	(240)
Marine Services (Moosonee)	Sales Revenue	85	74
	Government Reimbursement (note 4)	62	66
	Total Revenue	147	140
	Expense	155	140
	Income (loss) from operations	(8)	0
Tourist Facilities (Hannah Bay)	Revenue	97	135
	Expense	111	121
	Income (loss) from operations	(14)	14
Total Operations	Sales Revenue	117,755	112,512
	Government Reimbursement (note 4)	24,818	24,275
	Total Revenue	142,573	136,787
	Expense	128,437	124,691
	Income (loss) from operations	14,136	12,096

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Notes to Consolidated Financial Statements
December 31, 1989

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

These consolidated financial statements are prepared by management in accordance with generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Star Transfer Limited, The Owen Sound Transportation Company, Limited, Air-Dale Limited and Nipissing Central Railway Company.

(b) Materials and supplies

With the exception of used rail, all materials and supplies are valued at the most recent price paid. Used rail is shown at estimated utility value.

(c) Investment in property and depreciation

Fixed assets are stated at acquisition cost.

Depreciation is calculated on the straight-line basis over the estimated service lives of the assets.

The estimated service lives used for principal categories of assets are as follows:

Road-main line and branches	20 to 50 years
Railway diesel locomotives	25 years
Railway cars	33 years
Vessels	30 years
Telecommunications equipment	15 years
Aircraft	10 years
Boats	20 years
Vehicles	3 years
Buses	10 years

The Province of Ontario reimburses the Commission for the cost of certain fixed assets purchased for use in operations designated as non-commercial by the Province. The Commission records these assets at their original cost together with an offsetting credit to Contributed Surplus. Annual depreciation on these fixed assets is recorded as a reduction of Contributed Surplus.

(d) Income Tax

As a Crown Corporation of the Province of Ontario, the Commission and its wholly-owned subsidiaries are exempt from income taxes and accordingly no tax provision is reflected in operations.

(e) Vacation Pay

The Commission accounts for vacation entitlement payments on a cash basis. There is no accrual at the end of the year for vacation entitlements earned but not paid. Had these amounts been included in the accounts current liabilities would have increased by approximately \$4,480,000 (1988 - \$4,193,000) along with a corresponding decrease in retained earnings.

2. PENSION PLAN

The Commission is the trustee for its contributory pension plan which covers all permanent staff.

The net cost of pension benefits is actuarially determined on the basis of management's best estimates using the projected benefit method prorated over the service lives of employees. The net cost of pension benefits includes the amortization over the remaining service lives of the plan members of the initial net pension surplus and the 1989 experience gain. Pension plan assets were valued at a market related value based on recognizing the difference between book and market values at each year end over a five year period.

The Commission's share of the net cost of pension benefits earned by the employees during the year was \$1,496,000 (1988 - \$1,268,000). In 1989 the Commission funded the amount of \$2,241,000 (1988 - \$3,199,000). The excess of the funded amount over the net cost of benefits earned is recorded as a Deferred Pension Charge on the Balance Sheet.

The actuarial valuation prepared for accounting purposes as at December 31, 1989 disclosed a surplus of \$19,331,000 (1988 - \$10,168,000) representing the excess of plan assets of \$207,243,000 (1988 - \$188,538,000) over accrued pension benefits of \$187,912,000 (1988 - \$178,370,000). This valuation assumed an expected rate of return on plan assets of 7 1/2 per cent and projected pay increases of 5 1/2 per cent.

3. SELF-INSURANCE

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annual contributions to the self-insurance fund consist of a \$100,000 premium paid by the Commission in addition to investment income earned on fund assets.

4. GOVERNMENT REIMBURSEMENT

In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines, certain operations of the Commission have been designated as non-commercial. The Commission and the Ministry entered into a fixed price contract which defined the amount of compensation which the Province of Ontario provided for the year 1989.

A portion of the amount for the operating loss of the weekday passenger train service between North Bay and Toronto is received from the National Transportation Agency of Canada under Section 261 of the Railway Act.

Details of Government Reimbursement received are as follows:

	1989 \$	1988 \$
From Province of Ontario:		
Rail - Passenger Service and Moosonee Branch	17,810,000	17,922,000
Air Service	4,500,000	4,338,000
Marine Services (Moosonee)	62,000	66,000
Marine Services (Owen Sound)	-	(30,000)
From National Transportation Agency	<u>2,446,000</u>	<u>1,979,000</u>
	<u>24,818,000</u>	<u>24,275,000</u>

5. DEFERRED REVENUE

In 1985, the Commission received \$1,740,000 as full settlement for revenue lost through the rerouting of certain long distance telephone traffic. This amount is being amortized to income over the eight remaining years of the original agreement.

6. TELECOMMUNICATIONS REVENUE AGREEMENTS

The Commission has revenue-sharing agreements with Bell Canada and Northern Telephone Limited, subsidiaries of Bell Canada Enterprises Inc. These revenue-sharing agreements may be terminated by either party after giving 180 days and 60 days prior notice, respectively. Approximately 73 per cent (1988 - 73 per cent) of telecommunications revenue depend on these agreements.

7. SUBSEQUENT EVENT

Mine Closures

In March 1990 one of the Commission's major customers will close its mining operations at two mines located in Northern Ontario. Traffic at these two mines accounted for about 22 per cent of the Commission's Rail Services sales revenue. In connection with this closure, incentives to retire have been extended to a number of the Commission's employees. A total of 106 employees have accepted the offer at an estimated cost of \$5,044,000 which will be reflected in the accounts during the 1990 fiscal period.

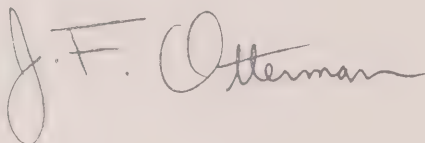
8. COMPARATIVE FIGURES

Prior year's figures have been reclassified where necessary to conform to the current year's presentation.

To the Ontario Northland Transportation Commission
and to the Minister of Northern Development.

I have examined the consolidated balance sheet of the Ontario Northland Transportation Commission as at December 31, 1989 and the consolidated statements of income and retained earnings, contributed surplus, and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Commission as at December 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

A handwritten signature in dark ink, reading "J.F. Otterman". The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

Toronto, Ontario

J.F. Otterman, F.C.A.,

March 23, 1990.

Assistant Provincial Auditor.

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1990 ANNUAL REPORT



»»» Ontario Northland



**The 90th
Annual Report
of the
Ontario Northland
Transportation
Commission
for the year ending
December 31, 1990**



Ontario

Province of Ontario

**Honourable Bob Rae
Premier**

**Honourable Shelley Martel
Minister of
Northern Development**





The Honourable Lincoln M. Alexander
P.C., Q.C., C.St.J., B.A.
Lieutenant-Governor of the Province of Ontario

May it please your Honour:

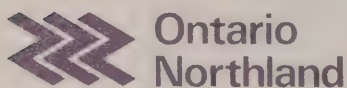
I beg leave to present the 90th annual report of the Ontario Northland Transportation Commission for the year ending December 31, 1990.

Respectfully submitted,

A handwritten signature in dark ink, reading "Shelley Martel".

Shelley Martel
Minister of Northern Development

1991



The Honourable Shelley Martel
Minister of Northern Development
Parliament Buildings
Toronto, Ontario

Madam:

I beg to submit the annual report for the year 1990 of the Ontario Northland Transportation Commission, and I have the honour to be, Madam,

Yours faithfully,

A handwritten signature in dark ink, reading "M.D. Sinclair".

M.D. Sinclair
Chairman, ONTC

1991

***Ontario Northland
Transportation
Commission***

***Principal
Officers***

**M.D. Sinclair
Chairman,
Sudbury**

**R.G. Brisson
Commissioner,
Cochrane**

**L.P. Compton
Commissioner,
Keewatin**

**M. Freedman
Commissioner,
Kirkland Lake**

**G.J. Gagnon
Commissioner,
Hearst**

**W.A. Keller
Commissioner,
Mindemoya**

**R.S. Lucenti
Commissioner,
North Bay**

**V.M. Power
Commissioner,
Timmins**

**F. Wapachee
Commissioner,
Moose Factory**

**P.A. Dymont
President & CEO**

**D.E. Mc Dougall
Vice President, Finance**

**R.S. Hutton
Vice President, Computer Services**

**K.J. Moorehead
Vice President, Rail Services**

**K.J. Wallace
Vice President, Telecommunications**

**E. Marasco
Vice President, Passenger Services**

**C.M. Boston
Vice President, Administration**

**T. O'Connell
Counsel**



The North...a land so big most people can't even imagine its total expanse of rock and water, towering pine and limitless muskeg. The North...throbbing with spring and summer energy in a rush to renew life.

President's message



1990 was a particularly difficult year for the North. As the Canadian economy slid into recession the regional economy of Northern Ontario suffered additional blows in the resource sector. The closures of the Sherman and Adams iron mines alone created widespread unemployment and a loss of 2-million tonnes of

annual rail freight business for the railroad. The deepening recession caused a general decrease in freight shipments for rail, truck, air and bus services.

Widespread unemployment and decreased disposable income for people still working created a decline in general passenger travel in all modes. The same factors were responsible for reduced tourist visits in the order of 25 per cent from the previous year. In the face of declining revenues, the company took steps to cut costs in many areas with no affect on operating safety and reliability.

During the year, many projects were initiated with the objective of building toward an enhanced position when the economy turns around. Construction starts in Cochrane and Kirkland Lake will result in new revenue properties next year which will also provide improved passenger services. Several new development projects aimed at an expanded tourist experience for the Polar Bear Express in Moosonee and

Moose Factory were initiated in recognition of the vital importance of this attraction as a tourist draw to the entire James Bay Frontier travel region. The project to develop the company's rail lands in Timmins also moved ahead.

The addition of the Nindawayma ferry in 1989 relieved the traffic congestion previously experienced at both Tobermory and South Baymouth. In terms of passenger volumes, the ferry service had only a small decline from the previous year while the excursion vessel, Chief Commanda II experienced a significant increase in riders.

Our airline, norOntair, continued to provide essential service to 22 Northern Ontario communities and Winnipeg with no significant change in operations or schedules.

Telecommunications expanded its business during the year and continued to upgrade its technology and services to consumers and businesses in the North.

Our trucking line, Star Transfer, suffered from the decline in commerce and moved to cut fixed and operating costs while continuing to provide essential service throughout the region.

A handwritten signature in dark ink, reading "P. A. Dymet". The signature is written in a cursive style with a horizontal line underneath.

Peter A. Dymet
President and CEO

Tourism

Ontario Northland Tourism launched the company's first fully-integrated marketing campaign, "Be My Guest In Northern Ontario" in the fall of 1989 for the 1990 tourism season. Media buying concentrated on the mass market from Oshawa to Windsor where research indicated residents had a low awareness and purchase consideration for a Northern Ontario holiday. When factors such as the impending recession, the advent of the GST and the high cost of fuel, liquor, food and lodging were compared with a competing U.S. holiday, the decision to concentrate solely on the southern Ontario market was finalized.

The 1990 campaign, conducted in cooperation with the Northern Ontario Regional Tourist Associations, was an important factor in reaching the levels of ridership experienced on our passenger operations considering the "down" market.

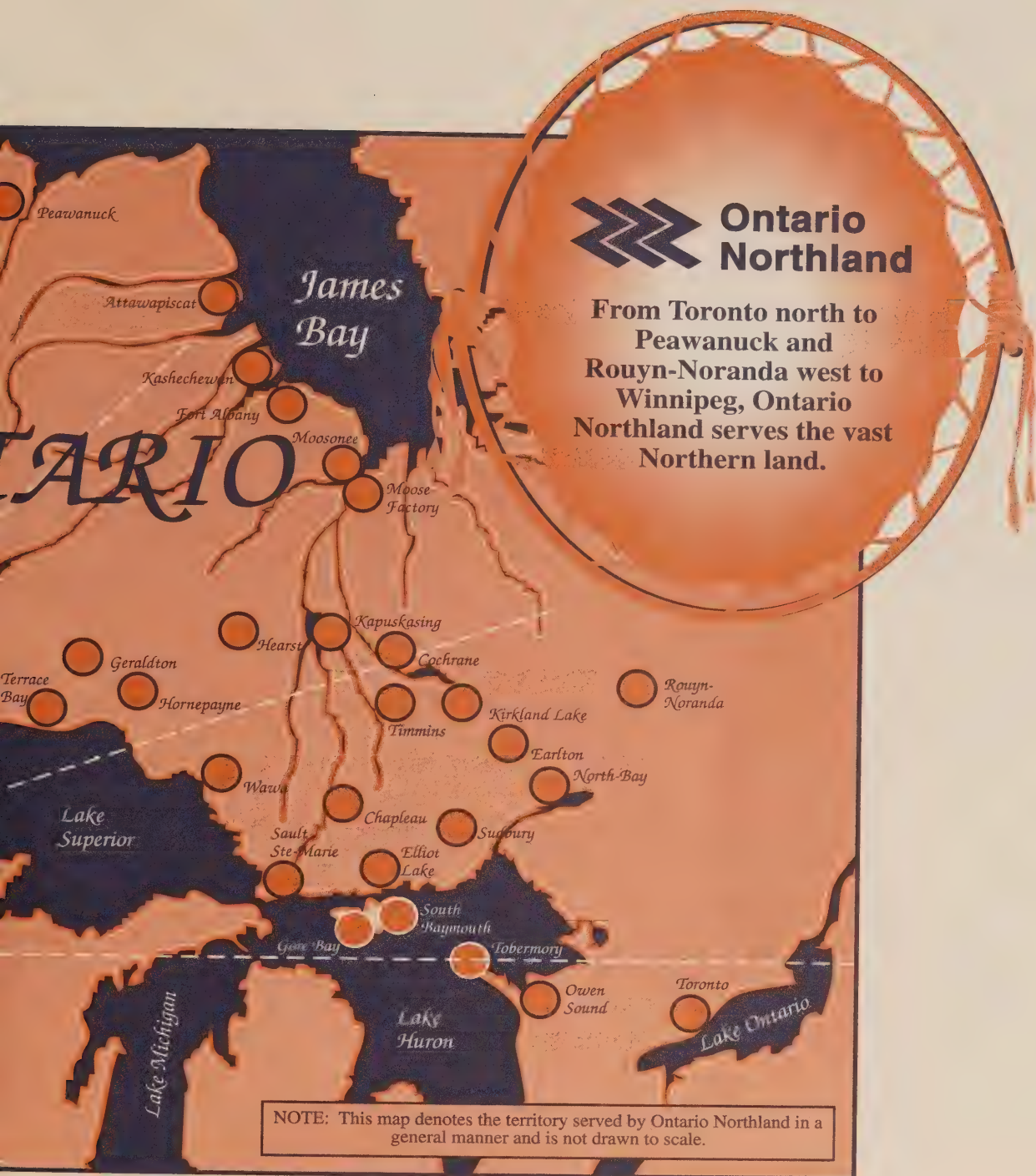
Of the many "test" conditions utilized in the campaign, the decision to advertise in six languages within the Metro Toronto market was crucial. Although response was less than expected, this was the first time an Ontario tourism operation had marketed directly to a target population in their own language. Some "pioneering" effort may be required to fully develop this new segment.

A full slate of high-quality fall colour tours utilizing Northlander, Bus and Chief Commanda products was taken to market in the late summer but the target audience, most of whom are on fixed pension and



other retirement incomes, failed to respond when the media became saturated with news of the impending recession.

For its second and last year, the Be My Guest campaign was totally revitalized for the 1990 fall launch to include a more intense marketing appeal featuring Northern holiday opportunities of interest to people suffering from the gridlocked



roads, airlocked airports, rising crime rate and crowded conditions of the designated market area.

Also in the fall, the division began the development of a professional Betacam video production facility based in North Bay to produce national-quality corporate and tourism videos and commercials for the company and allied tourism industry

partners. At the same time, planning and production began for a completely new “all-North” tourism marketing campaign to be launched in the fall of 1991 for the 1992 season when, it is hoped, the negative effects of the recession and GST will have abated and new tourism opportunities for the North will be realized.



Northern Skies

THE
NORTHERN
WAY

norOntair

LA VOIE
DU NORD

0664400024291

Passenger Ticket
and Baggage Check issued by
Billet de Passage
et Bulletin de Bagages émis par:

norOntair
555 Oak Street E
North Bay, Ontario
P1B 8L3

Member/Membre
Air Transport Association of Canada
T 104



The first commercial airline to provide scheduled Dash-8 service, norOntair provides a vital link to Toronto and the world at major Northern airports.

Due to the high service level provided on its Dash-8 routes and joint fares with various other air carriers, norOntair passenger demand increased during the year.

With \$12.5-million in revenue for the year generated through increased passenger acceptance and fare increases, the operation succeeded in reducing the requirement for government reimbursement by a half million dollars for service to communities which cannot generate economically viable passenger loads.

With no major route or schedule changes during the operating year, norOntair

concentrated on examining alternate aircraft to replace the fleet of Twin Otters now operating on more remote routes. Though the Twin Otter has one of the best safety and maintenance records in the aviation industry, customer acceptance is low because of engine noise levels, the unpressurized cabin and restricted seating. Replacement aircraft recommendations based on load requirements, airport and weather conditions, ease of maintenance and safety are expected to be made in 1991.

Though the market continues to centralize on business travel, other segments including group tours and high-end hunting and fishing packages, marketed in conjunction with lodges and outposts, are beginning to show growth potential.

Ontario Northland provides norOntair service to 23 communities.



Northern Waters

BE MY GUEST
M.V. CHIEF COMMANDA II



With the extension of Chi-Cheemaun spring / fall sailing schedules, and the addition of the Nindawayma to the summer schedule local and tourist traffic between Tobermory and South Baymouth was moved this season with considerably greater efficiency. Expected vehicle and passenger loads, however, did not materialize due to the effects of the onset of the recession.

Marine service for tourist and local passenger and freight traffic is provided between Tobermory and South Baymouth, Moosonee and Moose Factory and North Bay.

During the winter layup, normal scheduled maintenance was carried out on the Chi-Cheemaun while major refit work was performed on the Nindawayma to bring the vessel up to Ontario Northland operating standards.

Due to new tourism products developed for the Chief Commanda II and intensive local and regional marketing campaigns, this Lake Nipissing cruise vessel managed to record a 23 per cent gain in customer traffic over the previous year. Operating costs, especially for the regular scheduled cruise to the French River, for which there has been a major decline in demand, kept the operation in a loss position. Further

The Chi-Cheemaun and Nindawama are the largest ships of their type operating today on the Great Lakes.



revisions in products, schedules and marketing are planned for the 1991 cruise season.

The major rebuild performed on the Manitou II barge plying the Moose River between Moosonee and Moose Factory Island was largely responsible for an increase in tonnage carried for the season. Mandatory overhaul of the vessel's engines is scheduled during the winter.





Northern Rails

The loss of freight business during the year, in particular more than \$12-million from the closure of the Sherman and Adams mines necessitated a drastic restructuring of rail operations. Staff reductions of 140 employees occurred primarily through a one-time early retirement program and attrition.

Despite the declining revenue, the railroad is still forced to maintain track and support systems for remaining freight and passenger operations.

Negotiations continued with Canadian National Railways for the North Line track, property and some structures which will eventually enable ONR service from Cochrane to Hearst.

The passenger car building program continued with 7 cars completed and in service but the future of the program depends on forthcoming decisions on rail passenger service for the North.

A new spur line was completed to the Moosonee airport as the first step in the re-establishment of this community as a major shipping centre for the James Bay region. This will improve freight connections to air, tractor train and barge shipping. Management objectives for the next two years in rail services will concentrate on the



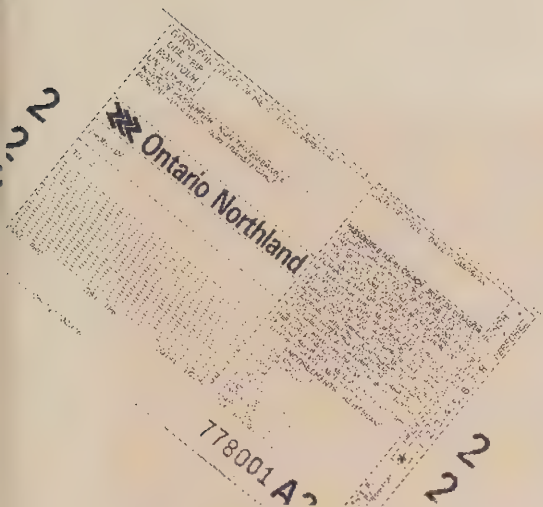
The Polar Bear Express attracts travelers from around the world each summer for the ride "down North" to Moosonee and Moose Factory.

attraction of new replacement freight business, improved service efficiency and cost reduction. The Freight Marketing organization was restructured under rail services for better communication and cooperation by the end of the year.



Skilled employees at the North Bay shops are building one of the most advanced, all-electric passenger train sets in North America.

Northern Roads



delivery system.

Bus tours from the North to major attractions and United States destinations continued their popularity especially with the retirement market segment. During the year the company sold more than 30 tours.

Negotiations were initiated with Gray Coach for the takeover of that company's North Bay/Toronto and Sudbury/Toronto routes. It was expected the final package would include main highway and feeder route licenses as well as a number of highway coaches and some buildings and property. The company undertook this project to provide through-bus service between Northern destinations and Toronto, improved scheduling and an opportunity to develop north-bound bus tours to enhance our total tourism initiative.



Ontario Northland highway coaches travel Northern roads every day carrying local and tourist travelers and efficient bus parcel express shipments.

Low-cost scheduled bus service throughout the Northeast continues to be a major means of local travel and ridership levels remained stable as the effects of the recession force people to seek the least-cost mode of travel.

Bus Parcel Express (BPX) service continued as a vital small-to-medium-size parcel

From routes and schedules to coaches and terminals,

Ontario Northland is constantly improving highway services for Northern travelers and shippers.





Passenger Services, Land

Economic conditions in 1990 called for a delicate balancing act between the need to raise fares for higher revenue to cover increasing fixed and operating costs and the declining purchasing power of both the regular and tourist rider.

Although passenger demand for travel on the Northlander train between Toronto and Cochrane did not decrease appreciably, there was significant resistance to increased charges for fares, food and beverage service. The "Little Bear" mixed train serving Cochrane and Moosonee/Moose Factory ran with consistent loads during the year with a noticeable increase in demand from shoulder-season tourists bound for wilderness canoe or eco-tour experiences. Several projects were started to further develop these opportunities, some in partnership with experts from the Ministry of Natural Resources.

While the Hannah Bay Goose Camp continues to attract hunters in search of a "world class" wing-shooting experience, the product cannot generate sufficient marketing funds to expand sales opportunities in U.S. and foreign markets.

In response to considerable pressure from the market for the replacement of the night train service to Toronto cancelled a year ago in the VIA cutbacks, negotiations were undertaken with federal authorities for the funding of a new train service. This option, however, has proven impossible and the company is waiting for the results of further deliberation by the Province.

New passenger facilities at our terminals in Toronto, North Bay, Englehart, Timmins, Kirkland Lake and Cochrane provide high levels of comfort and ease of movement for our customers and increased efficiencies for rail and bus operations.

By the end of the year passenger and food service cars and two auxiliary power units had been completed out of a full complement of 23 units of the new train being built in the company's North Bay shops. These units are now in service with the Little Bear operation. Pending funding decisions, we expect the completion of this advanced, all-electric train set by 1993.



Vacationers are fascinated by the traditional lifestyle of the inhabitants of Northern Ontario, and by the beauty and symbolism of their culture.

Development

Ground-breaking ceremonies for a \$3-million development in Cochrane launched a complete renovation of the 1910 station with the addition of a 23-room hotel.

Architecturally, the new building will maintain the traditional railroad flavour but utilizes modern materials and construction techniques. At a similar ceremony in Kirkland Lake, officials broke ground for a \$6-million bus station with 30,000 square feet of office and retail space above. Both projects are expected to be complete for service by mid-1991.

Negotiations began between the company and Native development corporations for a joint-venture hotel project in Moosonee as part of the total revitalization of the Polar Bear Express attraction.

The new North Bay station was officially opened in the early fall providing enhanced bus / rail passenger services.

In Timmins, environmental testing and re-zoning programs were undertaken for the company's proposed development projects on the recently vacated downtown rail yard lands. Preparations were also made for the sale and transfer of other core area land, not required for development, to the municipality.

The company finalized the assembly of some properties in Temagami to complete a parcel of rail land in anticipation of a future tourism development in cooperation with TEMCOR, a locally-financed and managed business consortium.

Ontario Northland International Consulting Services, a Development subsidiary, completed several projects including an East Africa Transport Corridor Pre-Feasibility Study, a Railway Traffic Costing Model for the World Bank and a railway commercial development educational program for the World Bank and the Union of African Railways. The division is bidding on several major Canadian and foreign projects for 1991.

In Cochrane, the home of the Polar Bear Express, Ontario Northland is building a new station, hotel and restaurant.



Highway Services combine with modern office and retail space in Ontario Northland's new development in Kirkland Lake.





Telecommunications

Phase III of Telecommunication's four-phase fibre optic cable project was completed during the year. It will eventually link all service communities from North Bay to Timmins and Cochrane in 1992.

To enhance our leadership role in technology, we reached an agreement with IBM Canada to create a new Systems Division which became the IBM Authorized Agent for Northeastern Ontario. The operation had a fast start with immediate applications of mid-size systems in resource industries and education settings. Our established office equipment business in portable computers and facsimile machines continued though with decreased demand from the market.

Satellite operations for long distance telephone and broadcast transmissions were improved with upgraded earth stations and additional capacity on the Anik C2 satellite.



Across the street, across the country, across the world and into outer space, Ontario Northland Telecommunications keeps the North in touch.

Fibre optics and computers, engineering services and earth stations, O.N. Telecom provides advanced technology solutions to communicating across the vastness of the North.



An access node into the Canada-wide Datapac system now provides Northerners with connections to computer databases, automatic credit card authorization, electronic mail and a host of other services.

The SCADA (Supervisory Control and Data Acquisition) system in Timmins became operational providing a computer-based means of monitoring the entire Telecommunications network.

A new marketing venture to launch the IBM business and expand consumer and industrial product lines was undertaken. Programs included extensive media advertising for product and a direct mail campaign to more than 12,000 businesses from North Bay to Moosonee featuring computer and office products, networks, long-distance telephone features, remote site sensing and systems design. The heightened awareness of the division and its services has resulted in significant new business leads.

Star Transfer

Star Transfer, the company's trucking division, continued to lose revenue during the year as mining exploration and operations dwindled with the decline in demand for metals. Concurrent slippage in the forest industries and manufacturing sectors contributed further to the lack of haulage business.

Operating costs remained high during the period due to substantially higher fuel and maintenance costs in the North. These could not be supported by higher freight tariffs because of the increased industry competition resulting from deregulation.

The company began intensive planning for the reduction of high-cost terminals and other space, and routes and schedules have been streamlined for greater efficiency. Most of these operations changes will be carried out in 1991.

Northern industry relies on fast, efficient Star Transfer services for on-time delivery of production materials and products.



Through the seasons from ice and snow to shimmering summer heat, Star Transfer drivers are on the road day and night keeping the North on the move.





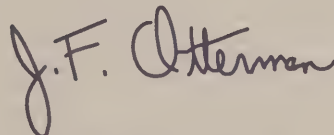
AUDITOR'S REPORT

To the Ontario Northland Transportation Commission
and to the Minister of Northern Development.

I have audited the consolidated balance sheet of the Ontario Northland Transportation Commission as at December 31, 1990 and the consolidated statements of income and retained earnings, contributed surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

A handwritten signature in dark ink, reading "J.F. Otterman". The signature is written in a cursive, flowing style.

J.F. Otterman, F.C.A.,
Assistant Provincial Auditor

Toronto, Ontario,
March 15, 1991.


ONTARIO NORTHLAND TRANSPORTATION COMMISSION

Consolidated Balance Sheet
as at December 31, 1990

(dollars in thousands)

Assets		1990 \$	1989 \$
Current Assets	Cash and short-term investments	943	8,374
	Accounts receivable	23,893	17,119
	Materials and supplies	11,880	12,869
	Prepaid expenses	730	527
		<hr/>	<hr/>
		37,446	38,889
		<hr/>	<hr/>
Long-Term Investments	Government bonds (market value \$1,993; 1989- \$24,727)	1,997	24,530
		<hr/>	<hr/>
Other Assets	Self-insurance fund (note 2) (market value \$3,189; 1989 - \$2,898)	3,244	2,832
	Bus franchises	268	298
	Investment in Telesat	150	150
	Goodwill	400	500
	Deferred pension charge (note 3)	6,176	5,371
		<hr/>	<hr/>
		10,238	9,151
		<hr/>	<hr/>
Investment in Property (schedule 1)		226,883	207,918
		<hr/>	<hr/>
		276,564	280,488
		<hr/>	<hr/>

Approved on behalf of the Commission:



M.D. Sinclair
Chairman



P.A. Dymment
President and CEO

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

Consolidated Balance Sheet
as at December 31, 1990

(dollars in thousands)

Liabilities and Equity		1990 \$	1989 \$
Current Liabilities	Accounts payable and accrued charges	14,386	20,107
Deferred Revenue (note 4)		856	994
Provision for Self-Insurance (note 2)		3,244	2,832
Long-Term Debt	Loan from Province of Ontario, non-interest bearing and with no specific terms of repayment	35,208	35,208
Province of Ontario Equity	Contributed surplus	13,828	16,094
	Retained earnings	209,042	205,253
		222,870	221,347
		276,564	280,488

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

Consolidated Statement of Income and Retained Earnings for the year ended December 31, 1990

(dollars in thousands)

	1990	1989
	\$	\$
Operating Revenues (schedule 2)	137,090	142,573
Operating Expenses (schedule 2)	131,400	128,437
	<hr/>	<hr/>
Operating Income	5,690	14,136
Investment Income	3,414	4,773
Interest Expense	(138)	(142)
Retirement Incentive (note 5)	(5,177)	-
	<hr/>	<hr/>
Net Income for the year	3,789	18,767
Retained Earnings, beginning of year	205,253	186,486
	<hr/>	<hr/>
Retained Earnings, end of year	209,042	205,253
	<hr/> <hr/>	<hr/> <hr/>

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

Consolidated Statement of Contributed Surplus
for the year ended December 31, 1990

(dollars in thousands)

	1990 \$	1989 \$
Balance, beginning of year	16,094	18,358
Add: Marine Services (Moosonee) barge upgrade	-	150
	16,094	18,508
Less: Depreciation	2,266	2,414
Balance, end of year	13,828	16,094

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

Consolidated Statement of Changes in Financial Position
for the year ended December 31, 1990

(dollars in thousands)

		1990 \$	1989 \$
Operating Activities	Net income for the year	3,789	18,767
	Items not affecting cash:		
	Depreciation	7,621	6,655
	Amortization and loss on sale (gain on sale) of bonds	308	(345)
	Increase in accounts receivable	(6,774)	(351)
	Decrease (increase) in materials and supplies and prepaid expenses	786	(123)
	Decrease in accounts payable	(5,721)	(3,084)
	Amortization of deferred revenue	(138)	(82)
	Increase in deferred pension charge	(805)	(745)
		(934)	20,692
Financing Activities	Capital reimbursement from the Province	-	150
Investing Activities	Investment in fixed assets	(29,789)	(32,438)
	Purchase of bonds	-	(1,190)
	Proceeds from sale of bonds	22,355	14,944
	Proceeds from sale of fixed assets	937	671
		(6,497)	(18,013)
Increase (decrease) in cash and short-term investments during the year		(7,431)	2,829
Cash and short-term investments, beginning of year		8,374	5,545
Cash and short-term investments, end of year		943	8,374

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

Schedule of Investment in Property
as at December 31, 1990

SCHEDULE 1

(dollars in thousands)

		1990 \$	1989 \$
Rail	Roadway	126,416	121,458
	Buildings	29,826	23,912
	Equipment	56,233	48,221
Telecommunications		64,067	57,096
Buses		3,685	3,162
Boats		967	967
norOntair	Aircraft	15,943	15,943
	Other	3,940	3,940
Star Transfer Limited	Vehicles	2,384	2,169
	Other	1,296	1,185
The Owen Sound Transportation Company, Limited	Vessels	19,811	19,811
	Other	385	381
		<hr/>	<hr/>
		324,953	298,245
Less: accumulated depreciation		124,140	114,947
		<hr/>	<hr/>
		200,813	183,298
Under construction		26,070	24,620
		<hr/>	<hr/>
Investment in property		226,883	207,918
		<hr/> <hr/>	<hr/> <hr/>

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSIONSchedule of Operating Revenues and Expenses
for the year ended December 31, 1990**SCHEDULE 2**

(dollars in thousands)

		1990	1989
		\$	\$
Rail Services	Sales Revenue	42,985	52,210
	Government Reimbursement (note 6)	18,233	20,256
		<hr/>	<hr/>
	Total Revenue	61,218	72,466
	Expense	66,376	71,065
		<hr/>	<hr/>
	Income (loss) from operations	(5,158)	1,401
		<hr/>	<hr/>
Telecommunications	Sales Revenue (note 7)	42,069	39,337
	Expense	28,843	26,703
		<hr/>	<hr/>
	Income from operations	13,226	12,634
		<hr/>	<hr/>
Air Services	Sales Revenue	12,492	10,203
	Government Reimbursement (note 6)	4,000	4,500
		<hr/>	<hr/>
	Total Revenue	16,492	14,703
	Expense	15,553	12,674
		<hr/>	<hr/>
	Income from operations	939	2,029
		<hr/>	<hr/>
Transport/Express Services	Sales Revenue	4,773	5,328
	Expense	6,619	6,450
		<hr/>	<hr/>
	Loss from operations	(1,846)	(1,122)
		<hr/>	<hr/>
Marine Services (Owen Sound)	Sales Revenue	5,127	5,126
	Government Reimbursement (note 6)	1,400	-
		<hr/>	<hr/>
	Total Revenue	6,527	5,126
	Expense	7,423	5,608
		<hr/>	<hr/>
	Loss from operations	(896)	(482)
		<hr/>	<hr/>

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

Schedule of Operating Revenues and Expenses
for the year ended December 31, 1990

SCHEDULE 2
(continued)

(dollars in thousands)

		1990 \$	1989 \$
Bus Services	Sales Revenue	5,358	5,086
	Expense	5,622	5,165
	Loss from operations	(264)	(79)
Marine Services (North Bay)	Sales Revenue	338	283
	Expense	653	506
	Loss from operations	(315)	(223)
Marine Services (Moosonee)	Sales Revenue	103	85
	Government Reimbursement (note 6)	62	62
	Total Revenue	165	147
	Expense	172	155
	Loss from operations	(7)	(8)
Tourist Facilities (Hannah Bay)	Sales Revenue	150	97
	Expense	139	111
	Income (loss) from operations	11	(14)
Total Operations	Sales Revenue	113,395	117,755
	Government Reimbursement (note 6)	23,695	24,818
	Total Revenue	137,090	142,573
	Expense	131,400	128,437
	Income from operations	5,690	14,136

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

Notes to Consolidated Financial Statements

December 31, 1990

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

These consolidated financial statements are prepared by management in accordance with generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Star Transfer Limited, the Owen Sound Transportation Company, Limited, Air-Dale Limited and Nipissing Central Railway Company.

(b) Materials and supplies

With the exception of used rail, all materials and supplies are valued at the most recent price paid. Used rail is shown at estimated utility value.

(c) Long-term investments

Long-term investments are stated at acquisition cost, net of any unamortized bond discount or premium.

(d) Investment in property and depreciation

Fixed assets are stated at acquisition cost.

Depreciation is calculated on the straight-line basis over the estimated service lives of the assets.

The estimated service lives used for principal categories of assets are as follows:

Roadway-main line and branches	20 to 50 years
Railway diesel locomotives	25 years
Railway cars	33 years
Vessels	30 years
Telecommunications equipment	15 years
Aircraft	10 years
Boats	20 years
Vehicles	3 years
Buses	10 years

The Province of Ontario reimburses the Commission for the cost of certain fixed assets purchased for use in operations designated as non-commercial by the Province. The Commission records these assets at their original cost together with an offsetting credit to Contributed Surplus. Annual depreciation on these fixed assets is recorded as a reduction of Contributed Surplus.

(e) Other assets

Bus franchises and goodwill are stated at unamortized acquisition cost and amortization is calculated on the straight-line basis over 10 years. The self-insurance fund and the investment in Telesat are stated at acquisition cost.

(f) Income taxes

As an agency of the Province of Ontario, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.

(g) Vacation pay

The Commission accounts for vacation entitlement payments on a cash basis. There is no accrual at the end of the year for vacation entitlements earned but not paid. Had these amounts been included in the accounts current liabilities would have increased by approximately \$4,112,000 (1989 - \$4,480,000) along with a corresponding decrease in retained earnings.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

Notes to Consolidated Financial Statements

December 31, 1990

2. SELF-INSURANCE FUND

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annual contributions to the self-insurance fund consist of a \$100,000 premium paid by the Commission in addition to investment income earned on fund assets.

3. PENSION PLAN

The Commission is the trustee for its contributory pension plan which covers all permanent staff.

The net cost of pension benefits is actuarially determined on the basis of management's best estimates using the projected benefit method pro-rated over the service lives of employees. The net cost of pension benefits includes the amortization over the remaining service lives of the plan members of the initial net pension surplus and the 1990 experience gain. Pension plan assets were valued at a market related value based on recognizing the difference between book and market values at each year end over a five year period.

The Commission's share of the net cost of pension benefits earned by employees during the year was \$1,397,000 (1989 - \$1,496,000). In 1990, the Commission funded the amount of \$2,202,000 (1989 - \$2,241,000). The excess of the funded amount over the net cost of benefits earned is recorded as a Deferred Pension Charge on the Balance Sheet.

The actuarial valuation prepared for accounting purposes as at December 31, 1990 disclosed a surplus of \$12,984,000 (1989 - \$19,331,000) representing the excess of plan assets of \$206,230,000 (1989 - \$207,243,000) over accrued pension benefits of \$193,246,000 (1989 - \$187,912,000). This valuation assumed an expected rate of return on plan assets of 7 1/2 per cent and projected pay increases of 5 1/2 per cent.

4. DEFERRED REVENUE

In 1985, the Commission received \$1,740,000 as full settlement for revenue lost through the rerouting of certain long distance telephone traffic. This amount is being amortized to income over the eight remaining years of the original agreement.

5. RETIREMENT INCENTIVE

During the year, one of the Commission's major customers closed its mining operations at two mines located in Northern Ontario. In connection with this closure, incentives to retire were extended to a number of the Commission's employees. A total of 107 employees accepted the offer at a cost of \$5,177,000.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

Notes to Consolidated Financial Statements

December 31, 1990

6. GOVERNMENT REIMBURSEMENT

In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines, certain operations of the Commission have been designated as non-commercial. The Commission and the Ministry entered into a fixed price contract which defined the amount of compensation which the Province of Ontario provided for the year 1990.

A portion of the amount for the operating loss of the weekday passenger train service between North Bay and Toronto is received from the National Transportation Agency of Canada under Section 261 of the Railway Act.

Details of Government Reimbursement received are as follows:

	1990 \$	1989 \$
From Province of Ontario:		
Rail - Passenger Service and Moosonee Branch	16,235,000	17,810,000
Air Services	4,000,000	4,500,000
Marine Services (Moosonee)	62,000	62,000
Marine Services (Owen Sound)	1,400,000	-
From National Transportation Agency	1,998,000	2,446,000
	<u>23,695,000</u>	<u>24,818,000</u>

7. TELECOMMUNICATION REVENUE AGREEMENTS

The Commission has revenue-sharing agreements with Bell Canada and Northern Telephone Limited, subsidiaries of Bell Canada Enterprises Inc.. These revenue-sharing agreements may be terminated by either party after giving 180 days and 60 days prior notice, respectively. Approximately 70 per cent (1989 - 73 per cent) of telecommunications revenue depend on these agreements.

8. COMMITMENTS

Rail Line Purchase

The Commission has entered into an agreement with the Canadian National Railway Company to purchase, for a nominal amount, certain lands, buildings and operations related rail facilities located between Cochrane and Calstock in the Province of Ontario. The agreement has been approved by the National Transportation Agency of Canada, but requires further federal and provincial government approvals before being finalized.

Gray Coach Purchase

The Commission has entered into an agreement to purchase certain assets from Gray Coach Lines Inc. for the sum of \$7 million. The agreement requires certain regulatory and Government of Ontario approvals before being finalized.

9. COMPARATIVE FIGURES

Prior year's figures have been reclassified where necessary to conform to the current year's presentation.



This annual report
is printed on
Passport
recycled paper
with nontoxic
vegetable ink.

CASON
H491
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Ontario Northland

A N N U A L R E P O R T 1 9 9 1



THE
NORTHERN
DEVELOPMENT
VISION

Design:



Our symbol of "vision" was adapted from an ancient shaman drum painting. The lines radiating from the image represent the light from the spirits seen in visions.

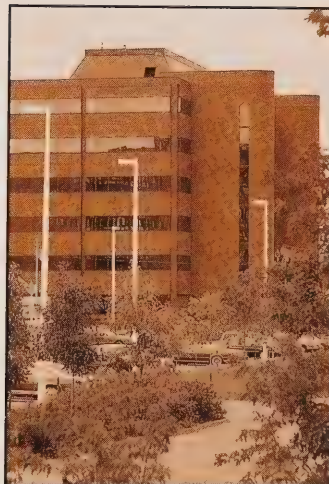


The 91st
Annual Report
of the
Ontario Northland
Transportation
Commission
for the year ending
December 31, 1991

Province of Ontario

Honourable Bob Rae
Premier

Honourable Shelley Martel
Minister of
Northern Development
and Mines





The Honourable Lincoln M. Alexander
P.C., Q.C., C. St.J., B.A.
Lieutenant-Governor of the Province of Ontario

May it please your Honour:

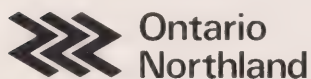
I beg leave to present the 91st annual report of the Ontario Northland Transportation Commission for the year ending December 31, 1991.

Respectfully submitted,

A handwritten signature in cursive script, reading 'Shelley Martel'.

Shelley Martel
Minister of Northern Development and Mines

1992



The Honourable Shelley Martel
Minister of Northern Development and Mines
Parliament Buildings
Toronto, Ontario

Madam:

I beg to submit the annual report for the year 1991 of the Ontario Northland Transportation Commission, and I have the honour to be, Madam,

Yours faithfully,

A handwritten signature in cursive script, reading 'M.D. Sinclair'.

M.D. Sinclair
Chairman, ONTC

1992

Ontario Northland
Transportation
Commission

Principal
Officers

M.D. Sinclair
Chairman,
Sudbury

P.A. Dymont
President & CEO

R.G. Brisson
Commissioner,
Cochrane

C.M. Boston
Vice President,
Administration and Development

L.P. Compton
Commissioner,
Keewatin

R.S. Hutton
Vice President,
Computer Services

M. Freedman
Commissioner,
Kirkland Lake

E. Marasco
Vice President,
Passenger Services

R.S. Lucenti
Commissioner,
North Bay

K.J. Moorehead
Vice President,
Rail Services

V.M. Power
Commissioner,
Timmins

K.J. Wallace
Vice President,
Telecommunication Services

M.K. Rukavina
Commissioner,
Kapuskasing

T. O'Connell
Counsel

W.L. Spottiswood
Commissioner,
Fort Frances

F. Wapachee
Commissioner,
Moose Factory

C.C. White
Commissioner,
Birch Island



PRESIDENT'S MESSAGE



The year 1991 saw the economic recession in the North continue and deepen.

The decline in mining and forest products further affected the company's freight revenues in rail and trucking services and reduced business and domestic travel affecting passenger revenues for bus, rail, airline and marine operations. Although fewer tourists visited the region during the summer season, intensive company marketing minimized the effect on Northeastern Ontario and Ontario Northland tourism products.

Out of economic necessity, the company continued cost-cutting measures in all divisions but without compromising service quality and safety.

On the positive side of the operations ledger, our Telecom division is on target toward the completion of the Fibre Optic Transmission System for long-distance telephone and other communication services.



The new station-hotel complex in Cochrane was officially opened and operated effectively during the Polar Bear Express season and the following fall and winter months.

Railroad staff worked diligently during the year building the new train sets based on the unilevel cars. It was expected that sufficient equipment would be in operation by the beginning of 1992 to replace the aging trains operating on the ONR's north/south Northlander route.

A handwritten signature in black ink, reading "P. A. Dymert". The signature is fluid and cursive, with a horizontal line underneath it.

Peter A. Dymert
President and Chief Executive Officer



THE VISION OF INDUSTRY LEADERSHIP

In 1902, the Act establishing Ontario Northland by the Province of Ontario clearly envisioned a fully commercial company operating in a broad range of businesses beyond the "raison d'être" railroad which was its first venture.

The Act pointedly provided for profit-motivated development of telephone and telegraph, bus, truck and airline transportation, hotels, restaurants, boats and ships and other unspecified and unforeseen investments..."for the benefit of travelers therein or residents thereof." Some developments were natural such as the establishment, on a commercial basis, of the Telecommunications division as an outgrowth of the railroad telegraph system.

Ontario Northland management policy has traditionally concentrated on two levels of mandate: the provision of essential services to Northern regions where the level of commercial activity precludes private sector involvement due to low revenue expectations and the provision of the highest-possible quality products and services to the North in a commercial manner to generate revenue to offset costs and capitalize its future. This operating principle is in effect in all divisions.

Although our airline flies to many otherwise isolated Northern communities, norOntair also serves the more populous corridor connecting Timmins, Sudbury, Sault Ste. Marie and Thunder Bay with Dash-8 aircraft. The higher-than-average passenger loads on the corridor route prove customer acceptance and demand for norOntair services.

Our bus system has, for years, been the vital travel link for local traffic between many communities both large and small. Service development was always limited due to the necessity for passengers to transfer to other commercial carriers in Sudbury and North Bay before going on to Toronto. These companies, understandably, set their schedules and fares to appeal to their own markets in the south rather than optimizing travel for Northerners. Ontario Northland took a major step in improving bus travel during the year by purchasing the Toronto-North routes from Gray Coach.

Ontario Northland Development is a relatively new division established to stimulate real property investment strictly in the North. Plans include the building of new, more comfortable, more efficient passenger facilities for rail and bus patrons and hotel, restaurant and tourist attractions to stimulate business where there is evident potential but a lack of commercial interest.



For 55 years, ONR steam locomotives pounded out a steady rhythm of industrial and agricultural growth and prosperity "up the line" from company headquarters in North Bay.

Our first efforts in retirement apartments, stations, restaurants, hotel and office complexes have proven the viability of sound management planning and the effectiveness of major developments designed, built and financed by Northerners.

There are few industries more tradition-bound than railroading but our system, the ONR, has stepped away from the usual in the design and building of its own passenger train equipment. The product of our skilled engineers and craftspeople in our North Bay shops is as good as any comparable train equipment operating anywhere in North America.

Our Telecommunications division, like our others, provides essential services to remote communities using state-of-the-industry hardware and software for Northern consumers from North Bay to Peawanuck. Our experts are involved in the design, installation and servicing of everything from remote site sensing systems to computer networks, radio and television broadcast, satellite links and advanced computer solutions for a wide range of Northern industries.

While some elements of Ontario Northland Marine operations are considered essential services, we've also applied our expertise to the development of tourism products so that our Georgian Bay ships and our Lake Nipissing cruise vessel have become important regional attractions and, as such, are responsible for the generation of important revenues for the Northern tourist industry.

The Northern tourism industry only flourished, in the past, during periods of decline in mining and forestry. Three years ago, Ontario Northland created a new Tourism division to develop and market travel services but with a broader mandate to take a leadership position within the Northern industry. Our marketing efforts now set new standards for creativity and innovation even during one of the toughest economic times ever experienced. Working harmoniously with our regional tourist associations, we have created new interest and awareness in our chosen markets for holiday opportunities in the North. These initiatives now go well beyond traditional hunting and fishing experiences and appeal to visitors seeking clean, healthy, safe holidays.

We're also assisting in the development of new tourism sales opportunities for specific regions like Temagami and several First Nation communities to capitalize on the expanding demand for wilderness, historical and culturally-themed vacations.

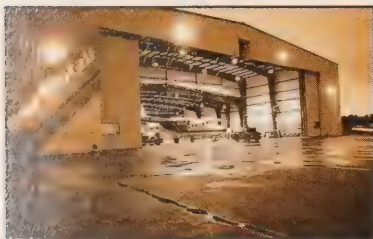
Through these and many other initiatives we believe we demonstrate, even more than ever before, the potential for a Northern development company employing skilled Northern talent for the creation and management of essential Northern business products and services in an open, competitive environment.



NORONTAIR



With more than a philosophical link to the bush planes that "opened the North", Ontario Northland Twin Otters were often the only possible way to get to many remote mining communities.



In some ways, the opening of the North has depended on the development of air travel and this is as true today as it was during the era of the pioneering bush plane pilots.

Northern Ontario is, by any standard, a huge territory with only a few cities but many small and relatively remote communities. It's a land of extremes of weather, distance and geography requiring an efficient, effective airline system to maintain vital business, government, community and family relationships.

Over the years, commercial carriers have added then dropped service to many communities as the fortunes of the North advanced then declined with the vagaries of the economy. Through good times...and not so good times, norOntair has been the only air travel constant across the North and, today, this Ontario Northland division, with its main service base centrally-located in Sault Ste. Marie, continues to fly safe, consistent, regular schedules to Northern centres like Thunder Bay and more remote communities like Red Lake.

Challenges facing norOntair management include the upgrade of its aging fleet of effective but outdated Twin Otter aircraft and the task of maintaining service to communities suffering from the devastating effects of the decline in natural resource industries.



MARINE SERVICES

Ontario Northland Marine assumed the "grand crossing" route from Tobermory, at the tip of the Bruce Peninsula to South Baymouth on Manitoulin Island at a time when the "essential" element, summer transportation of cottage owners, locals and cross-country truckers had declined to the point where it threatened the commercial viability of the service.

While demand from these traditional market segments has roughly continued to rise and fall with the economy, two factors serve to underline the continuing need for the service: the renewed dedication of the regions toward tourism business development and the new interest of southern Ontario residents in Manitoulin cottage property and yacht cruising on the fabulous North Channel.

Today, the Chi-Cheemaun and Nindawayma are much more than ferries...they're tourist attractions in their own right. Our marketing positions the crossing as a "must-do" part of the popular private vehicle and bus tour route which includes Tobermory, Manitoulin, Sudbury, Timmins, Cochrane and the Polar Bear Express and the attractions along Highway #11 to North Bay and our Chief Commanda cruise on Lake Nipissing.

Among the challenges facing Ontario Northland Marine management are optimizing the added capacity of the Nindawayma, moving the Chief Commanda toward profitability in a declining market and maintaining optimum service between Moosonee and Moose Factory Island with the Manitou II.



Showing an early commitment to regional tourism, the company launched the first Chief Commanda at Callander in 1946.



RAIL SERVICES



Although the last steam train in 1957 signalled the end of the steam era, Ontario Northland continued its steady growth and development on many industrial fronts.

Though a major effort has been made to recover the massive losses in rail freight revenue caused by the closure of the Sherman and Adams mines, ONR Freight continued to face declining demand as mining and forest products industries in the North struggled to stay alive. Opportunities for the railroad to reduce operating costs are limited by the ongoing requirement to maintain track and signals systems in safe and efficient condition without the offsetting revenue.

Passenger rail services are suffering through similar demand decline. The division has maintained its commitment to optimum resident and tourist passenger service through a highly-efficient program of new equipment manufacture targeted to provide new, state-of-the-industry passenger and food service cars for the Northlander and Little Bear trains.

ONR management is faced with the enormous challenge of maintaining safe, efficient freight and passenger service from Toronto to Moosonee in the face of continually-declining revenue to offset increasing track and equipment maintenance costs and the undeniable need to replace outdated equipment for freight, Northlander, Little Bear and Polar Bear Express services.





BUS SERVICES

For many people in the North who really have to get where they're going...for family, business, education or medical reasons, Ontario Northland scheduled bus service is often the only available travel option.

When Gray Coach Lines of Toronto decided to sell its Northern routes ON management quickly seized the opportunity to gain a measure of control over their system by purchasing the routes and providing through service to Toronto from North Bay and Sudbury. In addition, the company would gain an opportunity to develop new charter tours to the North and purchase some much-needed used highway coaches at a reasonable price. The acquisition process proved to be a long one and is not expected to reach completion until mid-1992.

Falling ridership throughout the service region and declining demand for charter and tour holidays has drastically eroded the division's revenue. This decline was however offset by the purchase of the Gray Coach routes.

In the coming year, Bus management will continue to struggle with the maintenance of vital scheduled service despite declining revenues. Initial projects are under way to produce and market the first trial northbound bus tour products to include weekend "getaway" tours as well as longer vacation trip packages designed to feed Northern attractions and interface with the company's marine and rail experiences.



The year was 1938...this early company bus was the "way to go" from headframe to town and town-to-town in the North.



STAR TRANSFER



From its base in Timmins, Star Transfer has a long history of truck freight service to the North.

During the past year our Star Transfer trucking division faced the same declining demand as our other freight operations. But Star also had to contend with the effects of de-regulation in its industry and increased price competition from independent truckers and the maintenance and staffing of the freight warehousing required for a full-service trucking system. The year also saw the arrival of the first of the long-haul truckers from the United States for whom Northern destinations are now within range of their much-cheaper U.S. fuel capacity.

Star management countered with the closing of several small freight warehouses opting instead to maintain service to more remote communities from its larger facilities in North Bay, Kirkland Lake and Timmins. The division sought to rationalize its fleet with standardized tractor and trailer equipment for maintenance efficiency which is also better suited to respond to more specialized customer demands.



TOURISM

Only in its third year of operation, Ontario Northland Tourism was created to provide marketing and product development for the company within a cooperative context with the entire Northern tourist industry.

Facing escalating costs for tourist amenities that made a Northern holiday uncompetitive in the U.S. market, management decided to implement a strategy which would concentrate on the almost-untapped mega-market of southern Ontario.

This year, the division spent the spring and summer in production of graphic and broadcast materials for a fall launch of a completely new marketing campaign entitled "Make it yours!" and designed for specific appeal to residents in the corridor from Ottawa to Windsor. By the end of the year there were early indications the new promotion would have a significant impact on the chosen market.

In the coming year, Tourism and associated agencies will be challenged to create new and fresh promotions despite ever-decreasing operating budgets and competition for declining tourist dollars with recession-driven, low-cost out-of-Canada holidays.

Tourism is also charged with maintaining and operating the on-the-ground elements of the Polar Bear Express in Moosonee and Moose Factory. An extensive development plan is being created to enhance this attraction. A major 1992 management objective involves co-operative development in conjunction with First Nations in the North.



At the height of Temagami's tourist boom in the 1940's Ontario Northland Boat Lines provided the link from the train station to island resorts and lodges.



TELECOMMUNICATIONS



Ontario Northland long distance operators provided the "human touch" to the company's electronic link between the North and the world.

Consistently our most profitable division and one which provides undeniably essential services, Ontario Northland Telecommunications continues to stress the application of advanced electronic technologies to Northern communication and data processing challenges at costs comparable to the rest of the province.

The installation of its Fibre Optic Transmission System between Timmins and North Bay is the division's top priority and the work is both on budget and on schedule.

During the year the division undertook a new marketing campaign to increase customer awareness of its extensive products and services throughout its service region. Featuring business products, specialized services like the design, installation and maintenance of computer networks, remote-site monitoring and business computer systems, the campaign elicited considerable interest and created important new sales opportunities.

The division's new commercial relationship with IBM experienced success despite the generally poor economic conditions as industry sought to drastically increase their data management efficiency and cut long-term operating costs.

In the company's 90th year of operation, Telecom is targeting the completion of its Fibre Optic facility and a net increase in total revenue primarily from its long-distance communication and data processing operations.





DEVELOPMENT

During a time of declining corporate revenues combined with increasing reluctance of private sector capitalists to invest in real property development, Ontario Northland Development has managed to complete and initialize its most recent projects.

Our new station/hotel/restaurant complex in Cochrane was opened in conjunction with our management partner, First Canada Inns, just in time for the launch of the summer Polar Bear Express season. The Station is a critical element in this hotel/rail excursion/attraction package which is the vital tourist draw for the region.

Work continued throughout the year on the Kirkland Lake office complex/bus terminal which is a bright economic symbol in this community devastated by the decline in mining activity across the region.

While further Development projects have been put "on hold," the division's fledgling International Consulting operation met limited success in marketing our corporate expertise, primarily in rail-related fields. Management continues to pursue opportunities, primarily in emerging African countries, which may be realized during the coming year.



By 1908, Ontario Northland management was operating from the new company headquarters in North Bay.



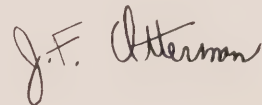
AUDITOR'S REPORT

To the Ontario Northland Transportation Commission and the Minister of Northern Development and Mines.

I have audited the consolidated balance sheet of the Ontario Northland Transportation Commission as at December 31, 1991, and the consolidated statements of income and retained earnings, contributed surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 1991, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Toronto, Ontario
March 27, 1992

J.F. Otterman, F.C.A.,
Assistant Provincial Auditor

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Consolidated Balance Sheet
as at December 31, 1991
(dollars in thousands)

Assets	1991 \$	1990 \$
Current Assets		
Cash and short-term investments	2,601	943
Accounts receivable	23,533	23,893
Materials and supplies	9,968	11,880
Prepaid expenses	711	730
	<hr/>	<hr/>
	36,813	37,446
Long-Term Investments (note 2)	150	2,147
Self-Insurance Fund (note 3) (market value \$3,409; 1990 - \$3,273)	3,115	3,244
Investment in Capital Assets (schedule 1)	237,199	227,151
Other Assets (note 4)	7,215	6,576
	<hr/>	<hr/>
	284,492	276,564
	<hr/>	<hr/>

Approved on behalf of the Commission:



M.D. Sinclair
Chairman



P.A. Dymont
President and CEO

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Consolidated Balance Sheet
as at December 31, 1991
(dollars in thousands)

Liabilities and Equity	1991 \$	1990 \$
Current Liabilities		
Accounts payable and accrued charges	13,682	14,386
Deferred revenue	1,085	856
Current portion of long-term debt	1,000	—
	<hr/> 15,767	<hr/> 15,242
Provision for Self-Insurance (note 3)	3,115	3,244
Long-Term Debt (note 6)	41,208	35,208
	<hr/> 44,323	<hr/> 38,452
Province of Ontario Equity		
Contributed surplus	11,706	13,828
Retained earnings	212,696	209,042
	<hr/> 224,402	<hr/> 222,870
	<hr/> 284,492	<hr/> 276,564
Commitments and Contingencies (note 10)		

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Consolidated Statement of Income and Retained Earnings
for the year ended December 31, 1991

(dollars in thousands)

	1991 \$	1990 \$
Operating Revenues (schedule 2)	134,820	137,090
Operating Expenses (schedule 2)	122,671	122,305
	<hr/>	<hr/>
Operating Income	12,149	14,785
	<hr/>	<hr/>
General Administrative Expenses	9,191	9,095
Interest Expense	129	138
Retirement Incentive (note 7)	—	5,177
Investment and Other Income	(825)	(3,414)
	<hr/>	<hr/>
Other Expenses	8,495	10,996
	<hr/>	<hr/>
Net Income for the year	3,654	3,789
Retained Earnings, beginning of year	209,042	205,253
	<hr/>	<hr/>
Retained Earnings, end of year	212,696	209,042
	<hr/> <hr/>	<hr/> <hr/>

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Consolidated Statement of Contributed Surplus
for the year ended December 31, 1991
(dollars in thousands)

	1991	1990
	\$	\$
Balance, beginning of year	13,828	16,094
Less: Amortization	2,122	2,266
	<u>11,706</u>	<u>13,828</u>
Balance, end of year	<u>11,706</u>	<u>13,828</u>

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Consolidated Statement of Changes in Financial Position
for the year ended December 31, 1991

(dollars in thousands)

		1991 \$	1990 \$
Operating Activities	Net income for the year	3,654	3,789
	Items not affecting cash:		
	Amortization	8,849	7,929
	Decrease (increase) in accounts receivable	360	(6,774)
	Decrease in materials and supplies and prepaid expenses	1,931	786
	Decrease in accounts payable and accrued charges	(704)	(5,721)
	Increase (decrease) in deferred revenue	229	(138)
		<u>14,319</u>	<u>(129)</u>
Financing Activities	Proceeds from term bank loan	7,000	—
Investing Activities	Proceeds from sale of long-term investments	2,029	22,355
	Investment in capital assets	(21,998)	(29,789)
	Proceeds from sale of capital assets	1,018	937
	Increase in other assets	(82)	(805)
	Increase in goodwill	(628)	—
		<u>(19,661)</u>	<u>(7,302)</u>
	Increase (decrease) in cash and short-term investments during the year	1,658	(7,431)
	Cash and short-term investments, beginning of year	943	8,374
	Cash and short-term investments, end of year	<u>2,601</u>	<u>943</u>

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Schedule of Investment in Capital Assets
as at December 31, 1991

SCHEDULE 1

(dollars in thousands)

		Cost	1991 \$ Accumulated Amortization	Net Book Value	1990 \$ Net Book Value
Rail Services	Roadway	129,473	43,008	86,465	85,967
	Buildings	38,947	5,311	33,636	25,268
	Equipment	60,637	23,366	37,271	34,461
Telecommunications	Equipment	68,800	37,311	31,489	26,806
	Buildings	2,762	820	1,942	2,036
Air Services	Aircraft	15,943	12,236	3,707	4,778
	Buildings	1,869	608	1,261	1,355
	Equipment	2,071	1,688	383	774
Transport/Express Services	Vehicles	2,384	1,536	848	1,087
	Land and Buildings	644	428	216	194
	Equipment	640	470	170	300
Marine Services (Owen Sound)	Vessels	19,811	5,845	13,966	14,626
	Land and Buildings	126	27	99	102
	Equipment	259	244	15	21
Bus Services	Coaches	8,697	1,471	7,226	2,571
	Land and Buildings	2,000	—	2,000	—
	Franchises	298	60	238	268
Marine Services (North Bay and Moosonee)	Vessels	912	508	404	440
	Buildings	105	30	75	27
Under construction		15,788	—	15,788	26,070
		<u>372,166</u>	<u>134,967</u>	<u>237,199</u>	<u>227,151</u>

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Schedule of Operating Revenues and Expenses
for the year ended December 31, 1991

SCHEDULE 2

(dollars in thousands)

		1991 \$	1990 \$
Rail Services	Sales Revenue	38,408	42,985
	Government Reimbursement (note 8)	18,711	18,233
		<hr/>	<hr/>
	Total Revenue	57,119	61,218
	Expense	56,717	59,673
		<hr/>	<hr/>
	Income from operations	402	1,545
		<hr/>	<hr/>
Telecommunications	Sales Revenue (note 9)	44,117	42,069
	Expense	30,068	27,533
		<hr/>	<hr/>
	Income from operations	14,049	14,536
		<hr/>	<hr/>
Air Services	Sales Revenue	12,520	12,492
	Government Reimbursement (note 8)	3,100	4,000
		<hr/>	<hr/>
	Total Revenue	15,620	16,492
	Expense	15,844	15,253
		<hr/>	<hr/>
	Income (loss) from operations	(224)	1,259
		<hr/>	<hr/>
Transport/Express Services	Sales Revenue	4,096	4,773
	Expense	6,375	6,505
		<hr/>	<hr/>
	Loss from operations	(2,279)	(1,732)
		<hr/>	<hr/>
Marine Services (Owen Sound)	Sales Revenue	5,280	5,127
	Government Reimbursement (note 8)	1,940	1,400
		<hr/>	<hr/>
	Total Revenue	7,220	6,527
	Expense	7,177	7,305
		<hr/>	<hr/>
	Income (loss) from operations	43	(778)
		<hr/>	<hr/>

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Schedule of Operating Revenues and Expenses
for the year ended December 31, 1991
(dollars in thousands)

SCHEDULE 2
(continued)

		1991 \$	1990 \$
Bus Services	Sales Revenue	6,041	5,358
	Expense	5,771	5,195
		<hr/>	<hr/>
	Income from operations	270	163
		<hr/>	<hr/>
Marine Services (North Bay)	Sales Revenue	297	338
	Expense	434	579
		<hr/>	<hr/>
	Loss from operations	(137)	(241)
		<hr/>	<hr/>
Marine Services (Moosonee)	Sales Revenue	103	103
	Government Reimbursement (note 8)	97	62
		<hr/>	<hr/>
	Total Revenue	200	165
	Expense	177	145
		<hr/>	<hr/>
	Income from operations	23	20
		<hr/>	<hr/>
Tourist Facilities (Hannah Bay)	Sales Revenue	110	150
	Expense	108	137
		<hr/>	<hr/>
	Income from operations	2	13
		<hr/>	<hr/>
Total Operations	Sales Revenue	110,972	113,395
	Government Reimbursement (note 8)	23,848	23,695
		<hr/>	<hr/>
	Operating Revenues	134,820	137,090
	Operating Expenses	122,671	122,305
		<hr/>	<hr/>
	Operating Income	12,149	14,785
		<hr/> <hr/>	<hr/> <hr/>

See accompanying schedules and notes to consolidated financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Notes to Consolidated Financial Statements
December 31, 1991

1. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting

These consolidated financial statements are prepared by management in accordance with generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Star Transfer Limited, The Owen Sound Transportation Company, Limited, Air-Dale Limited and Nipissing Central Railway Company.

b) Materials and supplies

With the exception of used rail, and bulk diesel fuel, all materials and supplies are valued at the most recent price paid. Used rail is shown at unamortized book value determined at the time of retirement and bulk diesel fuel is valued at average cost.

c) Long-term investments

Long-term investments are stated at acquisition cost, net of any unamortized bond discount or premium.

d) Investment in capital assets and amortization

Capital assets are stated at acquisition cost. Amortization is calculated on the straight-line basis over the estimated service lives of the assets.

The estimated service lives used for principal categories of assets are as follows:

Roadway-main line and branches	20 to 50 years
Railway diesel locomotives	25 years
Railway cars	33 years
Vessels	20 to 30 years
Buildings	50 years
Telecommunications equipment	15 years
Aircraft	10 years
Vehicles	3 years
Coaches	10 years
Bus franchises	10 years

The Province of Ontario reimburses the Commission for the cost of certain capital assets purchased for use in operations designated as non-commercial by the Province. The Commission records these assets at their original cost together with an offsetting credit to Contributed Surplus. Annual amortization on these capital assets is recorded as a reduction of Contributed Surplus.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Notes to Consolidated Financial Statements
December 31, 1991

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Self-insurance fund

The self-insurance fund assets are stated at acquisition cost.

f) Other assets

Deferred agency fees and goodwill are stated at unamortized acquisition cost and amortization is calculated on the straight-line basis over 5 years and 10 years, respectively.

g) Income taxes

As an agency of the Province of Ontario, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.

h) Vacation pay

The Commission accounts for vacation entitlement payments on a cash basis. There is no accrual at the end of the year for vacation entitlements earned but not paid. Had these amounts been included in the accounts, current liabilities would have been increased by approximately \$3,954,000 (1990 - \$4,112,000) along with a corresponding decrease in retained earnings.

2. LONG-TERM INVESTMENTS

Long-term investments are comprised of the following:

	1991 \$	1990 \$
Investment in common shares of Telesat Canada	150,000	150,000
Investment in long-term government bonds	—	1,997,000
	<u>150,000</u>	<u>2,147,000</u>

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Notes to Consolidated Financial Statements
December 31, 1991

3. SELF-INSURANCE FUND

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annual contributions to the self-insurance fund consists of a \$100,000 premium paid by the Commission in addition to investment income earned on fund assets. As a result of a freight train derailment occurring during the year, the sum of \$517,000 was paid from the self-insurance fund.

4. OTHER ASSETS

Other assets are comprised of the following:

	1991 \$	1990 \$
Deferred Agency Fees	238,000	—
Goodwill	969,000	400,000
Deferred Pension Charge (note 5)	6,008,000	6,176,000
	<hr/>	<hr/>
	7,215,000	6,576,000
	<hr/>	<hr/>

5. PENSION PLAN

The Commission is the trustee for its contributory pension plan which covers all permanent staff.

The net cost of pension benefits is actuarially determined on the basis of management's best estimates using the projected benefit method pro-rated over the service lives of employees. The net cost of pension benefits includes the amortization over the remaining service lives of the plan members of the initial net pension surplus and the 1991 experience gain. Pension plan assets were valued at a market related value based on recognizing the difference between book and market values at each year end over a five year period.

The Commission's share of the net cost of pension benefits earned by employees during the year was \$2,294,000 (1990 - \$1,397,000). In 1991, the Commission funded the amount of \$2,126,000 (1990 - \$2,202,000). The accumulated excess of the funded amount over the net cost of benefits earned is recorded as a Deferred Pension Charge which is included in Other Assets on the balance sheet.

The actuarial valuation prepared for accounting purposes as at December 31, 1991, disclosed a surplus of \$13,267,000 (1990 - \$12,984,000) representing the excess of plan assets of \$217,731,000 (1990 - \$206,230,000) over accrued pension benefits of \$204,464,000 (1990 - \$193,246,000). This valuation assumed an expected rate of return on plan assets of 7 1/2 per cent and projected pay increases of 5 1/2 per cent.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Notes to Consolidated Financial Statements
December 31, 1991

6. LONG-TERM DEBT

Long-term debt is comprised of the following:

	1991 \$	1990 \$
Loan from Province of Ontario		
Non-interest bearing and with no specific terms of repayment	35,208,000	35,208,000
Term bank loan		
Bearing interest at the bank's prime lending rate and with fixed annual principal repayments extending over 5 years	7,000,000	—
	<hr/> 42,208,000	<hr/> 35,208,000
Less: current portion	1,000,000	—
	<hr/> 41,208,000	<hr/> 35,208,000

Principal repayments due in each of the next 5 years are as follows:

1992	1,000,000
1993	1,000,000
1994	1,000,000
1995	1,000,000
1996	3,000,000
	<hr/> 7,000,000

7. RETIREMENT INCENTIVE

During 1990, one of the Commission's major customers closed its mining operations at two mines located in Northern Ontario. In connection with this closure, incentives to retire were extended to a number of the Commission's employees. A total of 107 employees accepted the offer at a cost of \$5,177,000.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Notes to Consolidated Financial Statements
December 31, 1991

8. GOVERNMENT REIMBURSEMENT

In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines, certain operations of the Commission have been designated as non-commercial. The Commission and the Ministry entered in a fixed price contract which defined the amount of compensation which the Province of Ontario provided for the year 1991.

A portion of the operating loss of the weekday passenger train service between North Bay and Toronto is reimbursed by the National Transportation Agency of Canada under Section 261 of the Railway Act.

Details of Government Reimbursement are as follows:

	1991 \$	1990 \$
From the Province of Ontario:		
Rail - Passenger Service and Moosonee Branch	16,611,000	16,235,000
Air Services	3,100,000	4,000,000
Marine Services (Moosonee)	97,400	62,000
Marine Services (Owen Sound)	1,940,000	1,400,000
From the National Transportation Agency	2,100,000	1,998,000
	<hr/>	<hr/>
	23,848,400	23,695,000
	<hr/>	<hr/>

9. TELECOMMUNICATIONS REVENUE AGREEMENTS

The Commission has revenue-sharing agreements with Bell Canada and Northern Telephone Limited, subsidiaries of Bell Canada Enterprises Inc. These revenue-sharing agreements may be terminated by either party after giving 180 days and 60 days prior notice, respectively. Approximately 68 per cent (1990 - 70 per cent) of telecommunications revenue depend on these agreements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
Notes to Consolidated Financial Statements
December 31, 1991

10. COMMITMENTS AND CONTINGENCIES

Rail Line Purchase

The Commission has entered into an agreement with the Canadian National Railway Company to purchase, for a nominal amount, certain lands, buildings and operations related rail facilities located between Cochrane and Calstock, in the Province of Ontario. The agreement has been approved by the National Transportation Agency of Canada, but requires further federal and provincial government approvals before being finalized.

Gray Coach Purchase

The Commission has entered into an agreement to purchase certain assets from Gray Coach Lines Inc. for the sum of \$7 million. The agreement requires certain regulatory and Government of Ontario approvals before being finalized. Currently, the assets are being utilized by the Commission while the monies paid are being held in escrow pending final approval.

Litigation

Various statements of claim have been issued against the Commission claiming damages. Damages, if any, cannot be estimated at this time and in any event the Commission is of the opinion that these claims would be unfounded or covered by insurance. Should any loss result, it would be charged to operations when the amount is ascertained.

11. COMPARATIVE FIGURES

Prior year's figures have been reclassified where necessary to conform to the current year's presentation.



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1992 ANNUAL REPORT



THE FOUNDERS

»»» Ontario Northland

1992 ANNUAL REPORT



The 92nd
Annual Report
of the Ontario Northland
Transportation Commission
for the year ending
December 31, 1992



Ontario

Province of Ontario

Honourable Bob Rae
Premier

Honourable Shelley Martel
Minister of
Northern Development and Mines



The Honourable Henry N.R. Jackman
O.S.C., B.A., LL.B., LL.D.
Lieutenant Governor of the Province of Ontario

May it please your Honour:

I beg leave to present the 92nd annual report of the Ontario Northland
Transportation Commission for the year ending December 31, 1992.

Respectfully submitted,

A handwritten signature in cursive script, reading "Shelley Martel".

Shelley Martel
Minister of Northern Development and Mines



The Honourable Shelley Martel
Minister of Northern Development and Mines
Parliament Buildings
Toronto, Ontario

Madam:

I beg to submit the annual report for the year 1992 of the Ontario Northland
Transportation Commission, and I have the honour to be, Madam,

Yours faithfully,

A handwritten signature in cursive script, reading "M.K. Rukavina".

M.K. Rukavina
Chairman, ONTC

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

M.D. Sinclair Chairman (Jan-Jun) Sudbury	D.S. Hughes Commissioner, Cochrane	W.L. Spottiswood Commissioner, Fort Frances
M.K. Rukavina Commissioner (Jan-Jun) Chairman (Jul-Dec) Kapuskasing	R.S. Lucenti Commissioner, North Bay	F. Wapachee Commissioner, Moose Factory
R.G. Brisson Commissioner, Cochrane	L. Marshall Commissioner, North Bay	C.C. White Commissioner, Birch Island
R.W. Carlyle Commissioner, New Liskeard	P. Nakogee Commissioner, Moosonee	
M. Freedman Commissioner, Kirkland Lake	V.M. Power Commissioner, Timmins	

PRINCIPAL OFFICERS

P.A. Dymont President & CEO	R.S. Hutton Vice President, Computer Services	K.J. Wallace Vice President, Telecommunication Services
C.M. Boston Vice President, Administration and Development	E. Marasco Vice President, Passenger Services	T. O'Connell Counsel
S.G. Carmichael Vice President, Finance	K.J. Moorehead Vice President, Rail Services	



CHAIRMAN'S MESSAGE

At year end, the Commission consisted of seven members; Chairman Matt Rukavina and Commissioners Roy Carlyle, David Hughes, Lloyd Marshall, Peter Nakogee, Wendy Spottiswood and Carol White, with service ranging from one to thirteen months. This relatively new group has given the Ontario Northland team a fresh policy look to face a continuing, challenging economic climate.

Premier Bob Rae through the Minister of Northern Development and Mines, Hon. Shelley Martel, continues to appoint Commission members truly representative of the northern geographic mosaic who bring transportation, business and administration background to the Commission table.

A policy has been developed to hold the monthly Commission meetings throughout the north in order to promote dialogue with various community leaders, customers and northerners in general on how, together, the north can best be served.

The principal challenges facing Ontario Northland are;

- coping with cost containment and decreasing provincial funding for non-commercial functions, while delivering the services the north desires and requires.
- facing the effects of federal deregulation of the telecommunications industry with the resultant competition and revenue decrease in our main funding source.
- the need to develop additional rail freight tonnage over the existing infrastructure which can accommodate practically any increase.
- promotion of greater passenger volumes in air, bus and marine transportation where significant declines have occurred, as they have nationally, and build upon rail passenger carryings where volumes have not decreased but where much potential for increase exists.

The Commission is taking steps to develop an organizational structure that will prepare Ontario Northland not only for the balance of this decade but its rightful role in the next century.

Respectfully submitted on behalf of the Commission,



Matt Rukavina
Chairman





P R E S I D E N T ' S M E S S A G E

Along with all business enterprises in the North, Ontario Northland has struggled through three years of unrelieved economic hardship brought on by the continuing recession.

Despite the daunting economic environment, which affected revenues in all our essential transportation operations, several positive notes were struck in 1992.

In our Communications division, the fibre optic transmission system between Timmins and North Bay was completed on time and on budget. Communications continues to be our strongest division, while keeping pace with systems innovations worldwide.

The new Northlander trains, built in our own Rail Services shops, were introduced this year, and met with unanimous approval both for their technological excellence and uncompromising efficiency.

Our tourism division's marketing efforts have more than ever continued to develop a strong base for growth in the industry as the economy turns around.

In 1992 we continued to cut back on costs in every area possible, while maintaining the safe, high-quality service that is Ontario Northland's hallmark.

Respectfully submitted,



Peter A. Dymert

President and Chief Executive Officer



"THE HISTORY OF ONTARIO
NORTHLAND IS INSEPARABLY
LINKED TO THE HISTORY OF
THE NORTH ITSELF, DEVELOPED
BY THOSE VISIONARIES WHO
STROVE AGAINST ENORMOUS
HARDSHIPS TO HEW A FORBID-
DING WILDERNESS REGION
INTO A NEW WORLD. AT THE
CLOSE OF OUR 90TH YEAR,
WE CELEBRATE THE GRIT AND
DETERMINATION OF THESE
FOUNDERS, AS WELL AS
THEIR HERITAGE OF ACCOM-
PLISHMENT."



RAIL SERVICES

The Northern Ontario Railway Act of 1902 gave birth to the Temiskaming & Northern Ontario Railway, forerunner of the ONR, which originally opened up the North and its rich mining and forest resources that sustained thriving industries.

In the challenging times now facing these industries, ONR freight has struggled to maintain its network of services at an optimum performance level and realistic operating cost in the face of declining demand.

Rail Services faced a similar challenge in its passenger services division, where quality and efficiency levels must continue to increase, despite essentially stagnant demands.

In 1992, a new Northlander train was introduced, composed of state-of-the-art equipment built in our own ONR shops. Innovations in its design and equipment provide a more cost-efficient operating budget, as well as increased passenger amenities. In addition, the refurbishing of equipment on the Little Bear passenger train was completed in 1992, updating it to a modern and comfortable travel environment.



**DR. WILLIAM DRUMMOND
(1854-1907)**

HE ACHIEVED RENOWN AS THE
AUTHOR OF THE HABITANT
POETRY, BUT FOR NORTHERNERS,
DR. DRUMMOND'S CONTRIBUTION
WAS MORE DIRECT AND PROSAIC.
AFTER HE AND HIS FAMILY
DEVELOPED CLAIMS AT THE
EAST END OF KERR LAKE INTO
THE SUCCESSFUL DRUMMOND
MINE, THE TYPHOID EPIDEMIC
THAT RAVAGED THE COBALT CAMP
IN 1907-1909 PULLED HIM BACK
TO HIS ORIGINAL CALLING. HE
PROVIDED ASSISTANCE TO MANY
TYPHOID SUFFERERS, AN
EXPOSURE TO THE DISEASE
THAT COST HIM HIS LIFE.

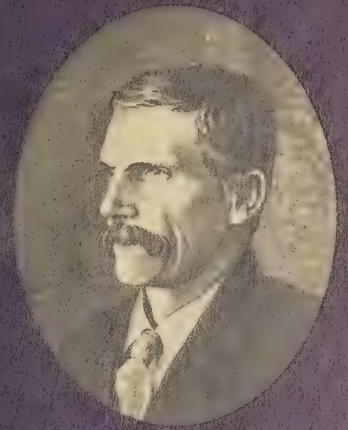


BUS SERVICES

It wasn't until the mid-20th Century that Northern Ontario highways caught up to the rail development that had originally opened up the North. Today's modern highways provide a transportation network that has made bus travel the most economical option for many Northerners. Ontario Northland has been providing them with convenient schedules and safe, comfortable service right from the start.

1992 saw the completion of the acquisition of the former Gray Coach Lines, enabling Ontario Northland to gain an edge on the market for bus service from Toronto to Sudbury and North Bay. This will potentially provide a boost to the division's declining revenues, and enable it to explore Northern tour package potential and increased ridership.

Meanwhile, Bus Services management continued to maintain an optimum service schedule for short- and long-distance customers, while exploring revenue-producing possibilities for the future.



**CHARLES COBBOLD
FARR
(1851-1914)**

AS AN EMPLOYEE OF THE
HUDSON BAY COMPANY, FARR
INVESTED HEAVILY IN LANDS
AROUND THE HAILEYBURY AREA
IN THE EARLY 1880s. HIS
ENERGETIC DEVELOPMENT
EFFORTS THERE INCLUDED A
GRIST MILL, A SAWMILL, THE
TEMISKAMING NAVIGATION
COMPANY, AND THE STILLBORN
COBALT RANGE RAILWAY.
GENERALLY ACKNOWLEDGED AS
HAILEYBURY'S FOUNDER AND
EVENTUALLY SERVING AS ITS
MAYOR, HE PROMOTED AND
DEVELOPED THE REGION ON
LAKE TEMISKAMING FOR OVER
30 YEARS.



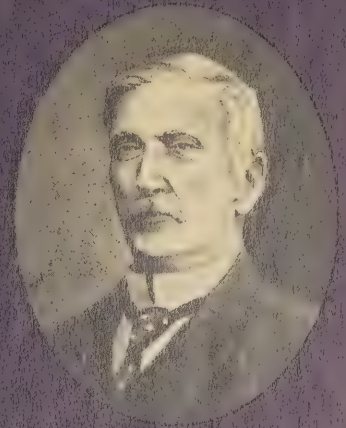
MARINE SERVICES

From the birchbark canoe, the earliest form of efficient long-distance transportation in Northern Ontario, to present-day world-class technology, water travel has been an important link between communities dotted across the region. From Moosonee to Manitoulin, the Chi-Cheemaun to the Chief Commanda, in 1992 Ontario Northland Marine continued its dedication to supporting and serving the transportation needs and tourism opportunities of the North.

On what was once a simple ferry crossing between Tobermory and South Baymouth on Manitoulin Island, the crossing of the Chi-Cheemaun has become the highlight of the tour route for families exploring this beautiful area.

While the declining economy has made a difficult task of boosting the Chief Commanda II's revenues, our marketing maintained its goal of attracting both locals and day-trippers to its Lake Nipissing cruise. We also explored various future uses for the Chief Commanda I, with an eye toward making it a revenue-producing attraction. The Manitou II continued in 1992 to provide a vital passenger and freight schedule between Moosonee and Moose Factory.

Management strategies that balance pragmatism and optimism will be an ongoing objective.



**FRANK COCHRANE
(1852-1919)**

HE HAD A PROMINENT POLITICAL
CAREER: THREE-TERM MAYOR
OF SUDBURY; PROVINCIAL
MINISTER OF LANDS, FORESTS
AND MINES; FEDERAL MINISTER
OF RAILWAYS AND CANALS. BUT
FRANK COCHRANE IS PERHAPS
BEST KNOWN IN THE NORTH AS
FOUNDER OF THE FAMOUS
COCHRANE-DUNLOP
HARDWARE LTD., A MAJOR
NATIONAL SUPPLIER, AND FOR
THE TOWN THAT BEARS HIS

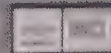
NAME.



Ontario
Northland



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Northland

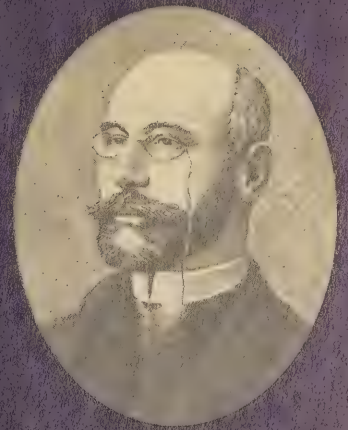
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STAR TRANSFER

As transportation technology developed over the last century, Ontario Northland's mandate has consistently kept pace. It was in the early 1930's that the T&NO Commission first considered expanding into trucking, a venture that eventually resulted in its truck freight service known as Star Transfer.

Like all of our freight operations, Star Transfer has suffered in recent years from a decline in demand, and 1992 brought little economic relief. The competition from independents and U.S. contractors has increased the difficulty of sustaining a viable full-service trucking system.

On November 21, 1992, due to continued revenue losses, Ontario Northland announced that Star Transfer would close February 1, 1993. Hoping to buy out the company, the employees formed a committee and entered into negotiations with Ontario Northland management.



**J.L. ENGLEHART
(1847-1920)**

JAKE ENGLEHART'S NAME IS
SYNONYMOUS WITH THE
TEMISKAMING & NORTHERN
ONTARIO RAILWAY. CHOSEN
CHAIRMAN OF THE COMMISSION
IN 1906, FOR 14 YEARS HE
DEVOTED HIS ENERGY, TIME AND
INFLUENCE TO THE T&NO AND
TO NEW ONTARIO. HE NURSED
THE YOUNG RAILWAY DURING
THE EXPANSION YEARS OF
1906-14, AND GUIDED IT
THROUGH THE TUMULTUOUS
YEARS OF THE FIRST WORLD
WAR. IN DOING SO, HE ADOPT-
ED A PROPRIETARY INTEREST IN
THE LINE AND IN THE COUNTRY
IT SERVED, AND STAMPED HIS
MARK INDELIBLY ON BOTH.

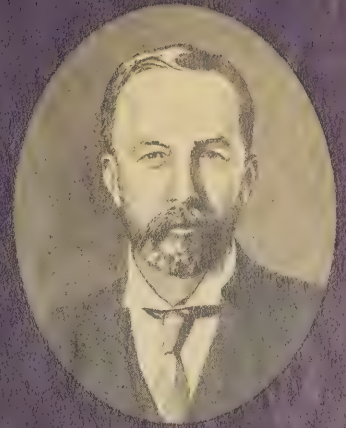


TELECOMMUNICATIONS

From the very beginning of telecommunications technology, the T&NO Commission saw its value. In addition to the historic advances it brought to railway signal operations, its tremendous commercial potential was obvious.

Today, Ontario Northland Communications, our most profitable division, continues to advance its technology and provide world-class telecommunications service to Northern Ontario. Our Fibre Optic Transmission System between Timmins and North Bay was completed on budget and on schedule in 1992.

In addition, our data-processing and telecommunications operations enjoyed a net increase in total revenue, while our fledgling data management joint venture with IBM continued to show successful results throughout the year.



**DR. WILLET G. MILLER
(1866-1925)**

ONTARIO'S FIRST FULL-TIME
PROVINCIAL GEOLOGIST, DR.
MILLER IS BEST KNOWN FOR
PROCLAIMING MILEAGE 103,
NEAR THE FAMOUS LAROSE AND
HEBERT SILVER FINDS, "COBALT
STATION, T&NO RAILWAY"
BEFORE TRACK HAD ACTUALLY
REACHED THAT POINT. HIS
EXTENSIVE AND VERY SUCCESS-
FUL LOBBYING OF THE PROVIN-
CIAL GOVERNMENT TO DEVELOP
THE COBALT REGION WAS A
CONTRIBUTION THAT LED TO HIS
RENOWN AS "AN INTERPRETER
AND THEORIST OF THE
NORTHLAND."

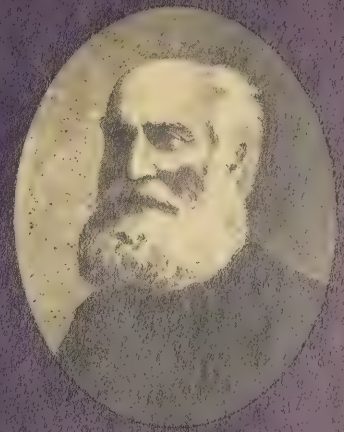


TOURISM

The wild beauty and rich history of the Northland that enriches the lives of its inhabitants also provides for a wealth of opportunities in tourism. Ontario Northland Tourism, in its 4th year, continued to develop a marketing strategy that is both realistic and ambitious in its aim to tap this market.

In 1992, we launched the MAKE IT YOURS campaign with just under a million copies of a full-colour Summer Holidays brochure that integrated tourism attractions with Ontario Northland's transportation network. Thousands of respondents sent in coupons requesting more information, and of those, almost 4,000 purchased our MAKE IT YOURS video.

Our marketing strategies continue to focus on competing for domestic and international tourist dollars to capitalize on the tremendous vacation opportunities throughout Ontario. We are also focusing on developing the potential of our Polar Bear Express operations to Moosonee, with the hope of continuing to expand this rich market in a cooperative effort with several First Nations communities.



**FATHER CHARLES
PARADIS
(1848-1926)**

HE WAS A MAVERICK AND A WELL-KNOWN AND POPULAR FIGURE IN THE NORTHLAND. EXPELLED FROM THE OBLATE ORDER FOR HIS QUARRELSOME WAYS, FR. PARADIS' CONSIDERABLE ACTIVITIES INCLUDED NATIVE MISSIONARY WORK AND THE PROMOTION OF COLONY SETTLEMENT ON LAKE TEMISKAMING, AS WELL AS PROSPECTING AND DEVELOPING A CAMP FOR PROSPECTORS AT FREDERICKHOUSE LAKE ON THE TRAIL INTO PORCUPINE. IN GRANTING HIM A RAIL PASS FOR HIS OWN USE, THE T&NO RAILWAY COMMISSION RECOGNIZED HIS EFFORTS IN PROMOTING THE NORTH.

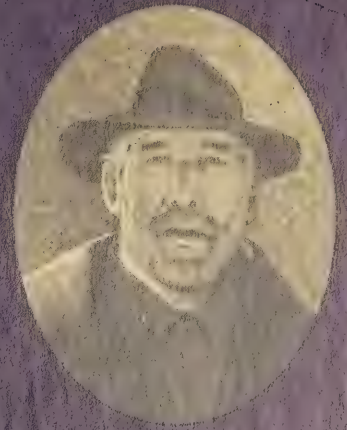


DEVELOPMENT

Development operations in a harsh economic environment call for uncompromising pragmatism in its outlook. We have met the challenge by cutting back further on plans for our International Consulting operation, concentrating in 1992 on completion of our domestic projects.

We opened our new Kirkland Lake bus terminal and office complex in 1992, and it is now fully operational, providing much-needed modern services to the local community as well as to our customers and personnel. In addition, our Cochrane station, hotel and restaurant complex, in its second year, proved to be a real bonus for tourism operations connecting the many attractions in the region.

As we move into the future, Ontario Northland Development will maintain a firm and practical vision that sees and capitalizes on financial opportunities without losing sight of the need for bottom-line control.



**SANDY MCINTYRE
(1869-1943)**

BORN ALEXANDER OLIPHANT IN SCOTLAND, HE PICKED A NEW NAME AND A NEW COUNTRY, AND BECAME A NORTHERN LEGEND. SANDY MCINTYRE WAS A MEMBER OF A T&NO CONSTRUCTION GANG BEFORE HE TURNED TO PROSPECTING, WHERE ALONG WITH GERMAN IMMIGRANT HANS BUTTNER HE STAKED THE THIRD GREAT FIND OF THE PORCUPINE GOLD CAMP, THE MCINTYRE MINE. ALTHOUGH THE MINE PRODUCED MILLIONS IN GOLD, LIKE MANY PROSPECTORS MCINTYRE ENJOYED ONLY MARGINAL FINANCIAL BENEFITS, AND HIS FAME GREW MORE AND LASTED LONGER THAN HIS FORTUNE.



The development of air travel in Northern Ontario in the first half of the 20th Century enabled delivery of essential services as well as the tapping of rich resources in the diverse and remote areas of this vast territory.

Today, the continuing development of the Northern region depends on maintaining the vital air link epitomized by the service of norOntair to both regional centres and far-flung communities.

Technology has come a long way since Charles Lindbergh's 1927 flight to Moose Factory; Ontario Northland was a pioneer with the first Dash-8 commercial flight in the world, and continues to keep pace with the needs of Northern air travellers.

As commercial carrier performance continued to fluctuate with the economy in 1992, we remained an enduring presence, providing consistent service on a regular, reliable timetable from our main service base in Sault Ste. Marie. NorOntair is dedicated to maintaining this vital service link to the communities we serve.



**JOHN MCINTYRE
FERGUSON
(1863-1946)**

STEPPING OFF THE VERY FIRST
TRAIN TO THE NORTH SHORE OF
LAKE NIPISSING IN 1882, 19-
YEAR-OLD JOHN FERGUSON
PURCHASED 288 ACRES OF
LAND AROUND THE LOG STATION
FOR A DOLLAR AN ACRE. NOT
ONLY WAS FERGUSON TO BE
THE FOUNDER OF NORTH BAY,
BUT HE WAS ALSO ITS MAYOR
FROM 1919-22. HE DIED IN
1946, THE SAME YEAR THAT
THE T & N O CHANGED ITS NAME
TO THE ONTARIO NORTHLAND
TRANSPORTATION COMMISSION
AND THE ORIGINAL CHIEF
COMMANDA WAS BUILT.



AUDITOR'S REPORT

To the Ontario Northland Transportation Commission
and to the Minister of Northern Development and Mines

I have audited the consolidated balance sheet of the Ontario Northland Transportation Commission as at December 31, 1992 and the consolidated statements of operations and retained earnings, contributed surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 1992 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Erik Peters, C.A.
Provincial Auditor

Toronto, Ontario
March 28, 1993

FINANCIAL REPORT

CONSOLIDATED BALANCE SHEET

As at December 31

<i>(dollars in thousands)</i>	1992	1991
ASSETS		
Current Assets		
Cash and short-term investments	\$ 6,028	\$ 534
Accounts receivable	21,335	23,533
Materials and supplies	9,008	9,968
Prepaid expenses	512	711
	36,883	34,746
Investment in Telesat Canada	* 150	150
Self-Insurance Fund (Note 1) - Market value \$3,772; (1991 - \$3,409)	3,568	3,115
Investment in Capital Assets (Schedule 1)	230,779	237,199
Other Assets (Note 2)	6,216	7,215
	\$ 277,596	\$ 282,425

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

FINANCIAL REPORT

CONSOLIDATED BALANCE SHEET

As at December 31

<i>(dollars in thousands)</i>	1992	1991
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued charges	\$ 12,286	\$ 11,615
Deferred revenue	149	1,085
Current portion of long-term debt	1,000	1,000
	13,435	13,700
Provision for Self-Insurance (Note 1)	3,568	3,115
Long-Term Debt (Note 4)	40,208	41,208
Commitments and Contingencies (Note 9)		
Province of Ontario Equity		
Contributed surplus	12,015	11,706
Retained earnings	208,370	212,696
	220,385	224,402
	\$ 277,596	\$ 282,425

ON BEHALF OF THE COMMISSION:



M. K. Rukavina, Chairman



P. A. Dymert, President and CEO

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

FINANCIAL REPORT

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the year ended December 31

<i>(dollars in thousands)</i>	1992	1991
Operating Revenues (Schedule 2)	\$ 143,758	\$ 130,724
Operating Expenses (Schedule 2)	133,407	116,296
Operating Income from Continuing Operations	10,351	14,428
Other Expenses		
General administrative expenses	9,581	9,191
Interest expense	160	129
Write-off of interest receivable (Note 5)	2,228	—
Investment and other income	(895)	(825)
	11,074	8,495
(Loss) Income from Continuing Operations	(723)	5,933
Discontinued Operations (Note 8)		
Loss from operations of discontinued Transport/Express Services division	(2,141)	(2,279)
Loss on disposal of Transport/Express Services division, including provision for severance payments to employees	(1,462)	—
Total Loss from Discontinued Operations	(3,603)	(2,279)
Net (Loss) Income for the year	(4,326)	3,654
Retained Earnings - beginning of year	212,696	209,042
Retained Earnings - end of year	\$ 208,370	\$ 212,696

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

FINANCIAL REPORT

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

For the year ended December 31

<i>(dollars in thousands)</i>	1992	1991
Balance - beginning of year	\$ 11,706	\$ 13,828
Add: Rail passenger equipment upgrade	2,400	—
Less: Amortization	2,091	2,122
Balance - end of year	\$ 12,015	\$ 11,706

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

FINANCIAL REPORT

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31

<i>(dollars in thousands)</i>	1992	1991
Operating Activities		
(Loss) income from continuing operations	\$ (723)	\$ 5,933
Loss from discontinued operations (Note 8)	(3,603)	(2,279)
Net (loss) income for the year	(4,326)	3,654
Items not affecting cash		
- amortization	10,897	8,849
	6,571	12,503
Changes in non-cash working capital balances		
Decrease in accounts receivable	2,198	360
Decrease in materials, supplies and prepaid expenses	1,159	1,931
Increase (decrease) in accounts payable and accrued charges	671	(859)
(Decrease) increase in deferred revenue	(936)	229
	9,663	14,164
Financing Activities		
Proceeds from term bank loan	—	7,000
Reduction of term bank loan	(1,000)	—
Proceeds from Province of Ontario	2,400	—
	1,400	7,000
Investing Activities		
Proceeds from sale of long-term investments	—	2,029
Investment in capital assets	(7,360)	(21,998)
Proceeds from sale of capital assets	1,142	1,018
Decrease (increase) in other assets	649	(82)
Increase in goodwill	—	(628)
	(5,569)	(19,661)
Increase in Cash and Short-Term Investments during the year	5,494	1,503
Cash and Short-Term Investments - beginning of year	534	(969)
Cash and Short-Term Investments - end of year	\$ 6,028	\$ 534

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

FINANCIAL REPORT

CONSOLIDATED SCHEDULE OF INVESTMENT IN CAPITAL ASSETS

Schedule 1

As at December 31

(dollars in thousands)

			1992	1991
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Rail Services				
Roadway	\$ 129,403	\$ 45,131	\$ 84,272	\$ 86,465
Buildings	40,453	6,146	34,307	33,636
Equipment	60,868	23,699	37,169	37,271
Telecommunications				
Equipment	72,529	39,740	32,789	31,489
Buildings	3,139	893	2,246	1,942
Air Services				
Aircraft	15,092	12,408	2,684	3,707
Buildings	1,869	701	1,168	1,261
Equipment	2,071	2,071	—	383
Transport/Express Services				
Vehicles	2,384	1,774	610	848
Land and buildings	644	454	190	216
Equipment	640	536	104	170
Marine Services (Owen Sound)				
Vessels	20,772	6,505	14,267	13,966
Land and buildings	126	29	97	99
Equipment	244	236	8	15
Bus Services				
Coaches	8,040	2,401	5,639	7,226
Land and buildings	2,000	6	1,994	2,000
Franchises	298	90	208	238
Marine Services (North Bay and Moosonee)				
Vessels	913	543	370	404
Buildings	105	33	72	75
Under construction	12,585	—	12,585	15,788
	\$ 374,175	\$ 143,396	\$ 230,779	\$ 237,199

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

FINANCIAL REPORT

CONSOLIDATED SCHEDULE OF OPERATING REVENUES AND EXPENSES

Schedule 2

For the year ended December 31

<i>(dollars in thousands)</i>	1992	1991
Rail Services		
Sales revenue	\$ 45,075	\$ 38,408
Government reimbursement (Note 6)	17,270	18,711
Total revenue	62,345	57,119
Expense	61,798	56,717
Income from operations	547	402
Telecommunications		
Sales revenue (Note 7)	44,489	44,117
Expense	32,647	30,068
Income from operations	11,842	14,049
Air Services		
Sales revenue	11,014	12,520
Government reimbursement (Note 6)	3,860	3,100
Total revenue	14,874	15,620
Expense	15,758	15,844
Loss from operations	(884)	(224)
Marine Services (Owen Sound)		
Sales revenue	4,816	5,280
Government reimbursement (Note 6)	1,860	1,940
Total revenue	6,676	7,220
Expense	6,908	7,177
(Loss) income from operations	(232)	43
Bus Services		
Sales revenue	11,306	6,041
Expense	12,926	5,771
(Loss) income from operations	(1,620)	270
Marine Services (North Bay)		
Sales revenue	106	297
Expense	264	434
Loss from operations	(158)	(137)

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

FINANCIAL REPORT

CONSOLIDATED SCHEDULE OF OPERATING REVENUES AND EXPENSES *Schedule 2 (continued)* For the year ended December 31

<i>(dollars in thousands)</i>	1992	1991
Marine Services (Moosonee)		
Sales revenue	\$ 85	\$ 103
Government reimbursement (Note 6)	110	97
Total revenue	195	200
Expense	134	177
Income from operations	61	23
Tourist Facilities (Hannah Bay)		
Sales revenue	98	110
Expense	85	108
Income from operations	13	2
Marine Services (Peelee Island)		
Sales revenue	2,787	—
Expense	2,534	—
Income from operations	253	—
Development (Office Building)		
Sales revenue	882	—
Expense	353	—
Income from operations	529	—
Total Operations		
Sales revenue	120,658	106,876
Government reimbursement (Note 6)	23,100	23,848
Operating revenues	143,758	130,724
Operating expenses	133,407	116,296
Operating income from continuing operations	10,351	14,428
Discontinued Operations (Note 8)		
Loss from operations of discontinued Transport/Express Services division	(2,141)	(2,279)
Loss on disposal of Transport/Express Services division, including provision for severance payments to employees	(1,462)	—
	(3,603)	(2,279)
Operating Income	\$ 6,748	\$ 12,149

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As at December 31

Basis of Accounting

These consolidated financial statements are prepared by management in accordance with generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Star Transfer Limited, The Owen Sound Transportation Company, Limited, Air-Dale Limited and Nipissing Central Railway Company.

Materials and Supplies

With the exception of used rail and bulk diesel fuel, all materials and supplies are valued at the most recent prices paid. Used rail is shown at unamortized book value determined at the time of retirement and bulk diesel fuel is valued at average cost.

Investment in Telesat Canada

Investment in Telesat Canada is stated at acquisition cost.

Investment in Capital Assets and Amortization

Capital assets are stated at acquisition cost. Amortization is calculated on the straight-line basis over the estimated service lives of the assets.

The estimated service lives used for principal categories of assets are as follows:

Roadway-main line and branches	20 to 50 years
Railway diesel locomotives	25 years
Railway cars	33 years
Vessels	20 to 30 years
Buildings	50 years
Telecommunications equipment	15 years
Aircraft	10 years
Vehicles	3 years
Coaches	10 years
Bus franchises	10 years

The Province of Ontario reimburses the Commission for the cost of certain capital assets purchased for use in operations designated as non-commercial by the Province. The Commission records these assets at their original cost together with an offsetting credit to contributed surplus. Annual amortization on these capital assets is recorded as a reduction of contributed surplus.

FINANCIAL REPORT

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As at December 31

Self-Insurance Fund	The self-insurance fund assets are stated at acquisition cost.
Other Assets	Deferred agency fees and goodwill are stated at cost and are amortized on the straight-line basis over 5 years and 10 years, respectively.
Vacation Pay	The Commission accounts for vacation entitlements on a cash basis.
Income Taxes	As an agency of the Province of Ontario, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at December 31

1 Self-Insurance Fund

The Commission follows the policy of self-insuring against damages from rolling stock derailments and for cargo damage. Annual contributions to the self-insurance fund consist of a \$100,000 premium paid by the Commission in addition to investment income earned on fund assets.

2 Other Assets

Other assets are comprised of the following:

	1992	1991
Deferred agency fees	\$ —	\$ 238,000
Goodwill	857,000	969,000
Deferred pension charge (Note 3)	5,359,000	6,008,000
	\$ 6,216,000	\$ 7,215,000

Deferred agency fees were paid to a company that has since gone bankrupt. Accordingly, management has written off the unamortized balance as realization of the related services are unlikely.

3 Deferred Pension Charge

The Commission is the trustee for its contributory pension plan which covers all permanent staff.

The net cost of pension benefits is actuarially determined on the basis of management's best estimates using the projected benefit method pro-rated over the service lives of the employees. The net cost of pension benefits includes the amortization over the remaining service lives of the plan members of the initial net pension surplus and the 1992 experience gain. Pension plan assets were valued at a market related value based on recognizing the difference between book and market values at each year end over a five year period.

The Commission's share of the net cost of pension benefits earned by employees during the year was \$3,021,000 (1991 - \$2,294,000). In 1992 the Commission funded the amount of \$2,373,000 (1991 - \$2,126,000). The accumulated excess of the funded amount over the net cost of benefits earned is recorded as a deferred pension charge which is included in other assets on the balance sheet.

The actuarial valuation prepared for accounting purposes as at December 31, 1992 disclosed a surplus of \$3,228,000 (1991 - \$13,267,000) representing the excess of plan assets of \$238,202,000 (1991 - \$217,731,000) over accrued pension benefits of \$234,974,000 (1991 - \$204,464,000). This valuation assumed an expected rate of return on plan assets of 7 1/2 per cent and projected pay increases of 5 1/2 percent.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at December 31

4 Long-Term Debt

Long-term debt is comprised of the following:

	1992	1991
Loan from Province of Ontario is non-interest bearing with no specific terms of repayment.	\$ 35,208,000	\$ 35,208,000
Term bank loan bearing interest at the bank's prime lending rate and with fixed annual principal repayments extending over 5 years	6,000,000	7,000,000
	41,208,000	42,208,000
Less: current portion	1,000,000	1,000,000
	\$ 40,208,000	\$ 41,208,000

Principal repayments due in each of the next four years are as follows:

1993	\$ 1,000,000
1994	1,000,000
1995	1,000,000
1996	3,000,000
	\$ 6,000,000

5 Write-off of Interest Receivable

The Commission had charged the Ministry of Northern Development and Mines for interest in connection with the purchase of the ferry vessel Nindawayma in 1989. It has become evident that payments for this interest will not be forthcoming and accordingly, they are being written off.

6 Government Reimbursement

In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines, certain operations of the Commission have been designated as non-commercial. The Commission and the Ministry entered into a fixed price contract which defined the amount of compensation which the Province of Ontario provided for the year 1992.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at December 31

6 Government Reimbursement *(continued)*

A portion of the operating loss of the weekday passenger train service between North Bay and Toronto is reimbursed by the National Transportation Agency of Canada under Section 261 of the Railway Act.

Details of Government Reimbursement are as follows:

	1992	1991
From Province of Ontario:		
Rail - Passenger Service and Moosonee Branch	\$ 15,170,000	\$ 16,611,000
Air Services	3,860,000	3,100,000
Marine Services (Moosonee)	110,000	97,400
Marine Services (Owen Sound)	1,860,000	1,940,000
From National Transportation Agency	2,100,000	2,100,000
	\$ 23,100,000	\$ 23,848,400

7 Telecommunications Revenue Agreements

The Commission has revenue-sharing agreements with Bell Canada and Northern Telephone Limited, subsidiaries of Bell Canada Enterprises Inc. These revenue-sharing agreements may be terminated by either party after giving 180 days and 60 days prior notice, respectively. Approximately 70 percent (1991 - 68 percent) of telecommunications revenue depend on these agreements.

8 Discontinued Operations

In December 1992, the Commission implemented a plan to discontinue the Transport/Express Services division (Star Transfer Limited). The phase out period is expected to extend into the first quarter of 1993. The results of operations of this division for the period January 1, 1992 to December 31, 1992 are included in Discontinued Operations - loss from operations of discontinued Transport/Express Services division. Comparative figures have been reclassified to conform to this basis of presentation. Net assets of the division were valued at \$1,483,000 as at December 31, 1992. Sales for the year amounted to \$4,016,000 (1991 - \$5,096,000). It is anticipated that the net assets of the division will be disposed of at fair market value by way of public auction with the exception of the buildings and land which will be retained by the Commission.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at December 31

9 Commitments and Contingencies

Rail Line Purchase

The Commission has entered into an agreement with the Canadian National Railway Company to purchase, for a nominal amount, certain lands, buildings and operations related rail facilities located between Cochrane and Calstock in the Province of Ontario. The agreement has been approved by the National Transportation Agency of Canada, but requires further federal and provincial government approvals before being finalized.

Litigation

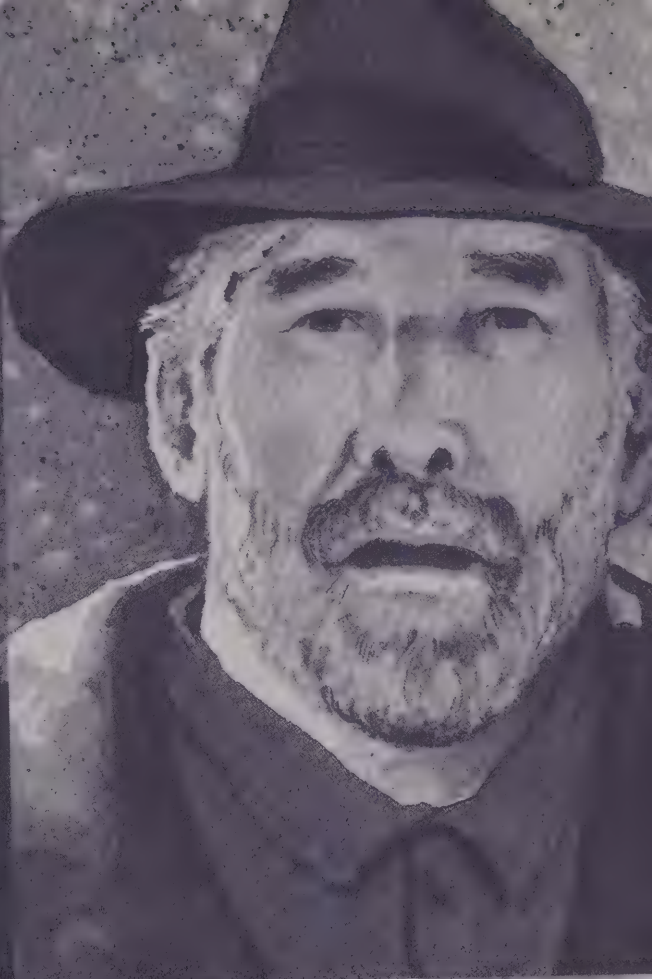
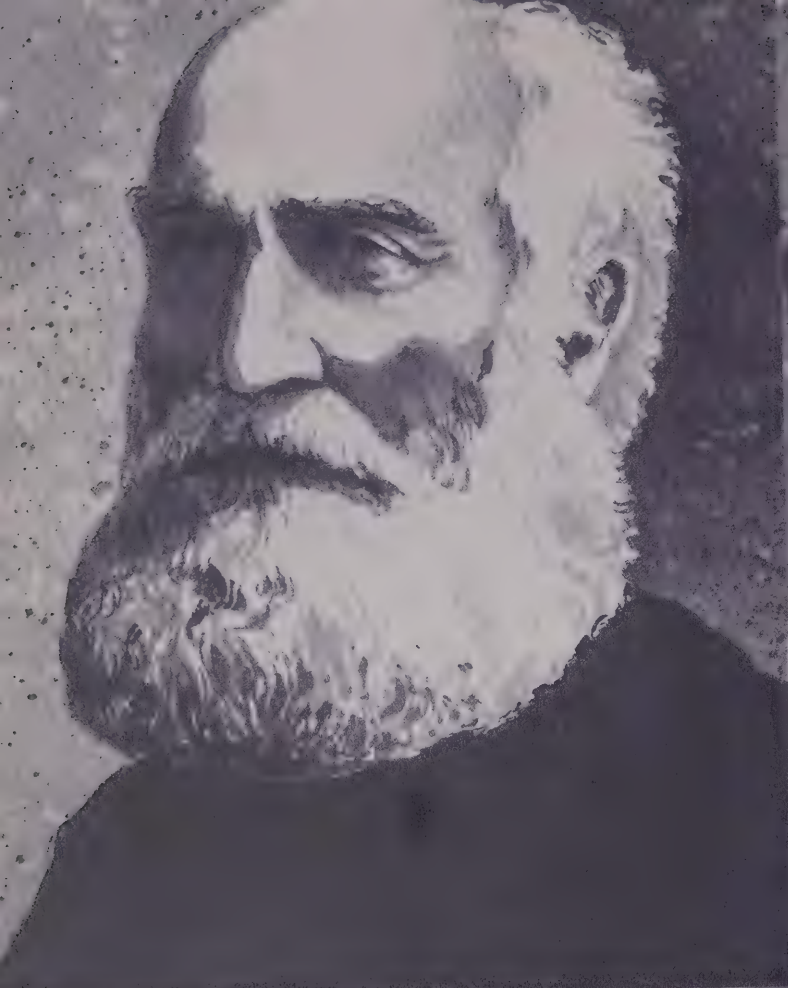
Various statements of claim have been issued against the Commission claiming damages. Damages, if any, cannot be estimated at this time and in any event the Commission is of the opinion that these claims would be unfounded or covered by insurance. Should any loss result, it would be charged to operations when the amount is ascertained.

10 Government Assistance

Under an agreement dated February 24, 1992 the Commission is eligible to receive \$4,250,000 in loan proceeds from the Northern Ontario Heritage Fund Corporation, (the Heritage Fund) to assist with the purchase of certain specified capital assets. In accordance with the terms of the agreement the Commission must lease the assets to Algoma Central Railway for a nominal fee of \$1 per year. The loan is non interest bearing and may be repaid at a mutually agreed date between the Commission and the Heritage Fund by conveyance of the title of the assets to the Heritage Fund. As at December 31, 1992 a total of \$3,457,000 has been received and has been recorded as a reduction of the cost of the capital assets.

11 Comparative Figures

Prior year's figures have been reclassified where necessary to conform to the current year's presentation.



CAZON
H491
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Publications

1993 Annual Report



Ontario Northland



1993 Annual Report



The 93rd Annual Report
of the
Ontario Northland Transportation Commission
for the year ending
December 31, 1993



Ontario

Province of Ontario

Honourable Bob Rae
Premier

Honourable Gilles Pouliot
Minister of Northern Development and Mines



The Honourable Henry N.R. Jackman
O.St.J., B.A., L.L.B., L.L.D.
Lieutenant Governor of the Province of Ontario

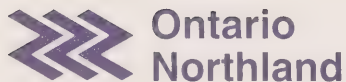
May it please your Honour:

I beg leave to present the 93rd annual report of the Ontario Northland
Transportation Commission for the year ending December 31, 1993.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Gilles Pouliot".

Gilles Pouliot
Minister of Northern Development and Mines



The Honourable Gilles Pouliot
Minister of Northern Development and Mines
Parliament Buildings
Toronto, Ontario

Sir:

I beg to submit the annual report for the year 1993 of the Ontario Northland
Transportation Commission, and I have the honour to be, Sir,

Yours faithfully,

A handwritten signature in dark ink, appearing to read "M.K. Rukavina".

M.K. Rukavina
Chairman, ONTC

Principal Officers

P.A. Dymont
President & CEO
(Jan - Sep)

K.J. Wallace
Vice-President
Telecommunications Services
(Jan - Sep)

Acting President
(Sep - Nov)

President & CEO
(Dec)

C.M. Boston
Vice-President
Administration and Development

S.G. Carmichael
Vice-President
Finance

R.S. Hutton
Vice-President
Computer Services
(Jan-Sep)

Acting Vice-President
Telecommunications Services
(Sep - Nov)

Vice-President
Telecommunications Services
(Dec)

E. Marasco
Vice-President
Passenger Services

K.J. Moorehead
Vice-President
Rail Services

T. O'Connell
Counsel

Ontario Northland Transportation Commission

M.K. Rukavina
Chairman
Kapuskasing

R.W. Carlisle
Commissioner
Haileybury

D.S. Hughes
Commissioner
Cochrane

B. Hughson
Commissioner
Chelmsford

P.A. Kelly
Commissioner
North Bay

L. Marin
Commissioner
Timmins

L. Marshall
Commissioner
North Bay

P. Nakogee
Commissioner
Moosonee

W.L. Spottiswood
Commissioner
Fort Frances

C.C. White
Commissioner
Birch Island



Chairman's Message

During 1993 the composition of the Commission was enlarged to ten by the addition of Barbara Hughson, Paul Kelly and Lise Marin.

Peter Dymont retired as President in September with John Wallace appointed as Acting President while a search took place for a permanent replacement. John Wallace, a career Ontario Northland employee who served in all areas of the corporation's activities, was named President and CEO as of December 1, 1993.

Some of the highlights of the year were:

- Star Transfer, with its continued financial losses in the 2 million dollar a year range, ceased operating in April after a valiant attempt by all concerned to transform it into an employee-owned company.
- In April the provincial expenditure control plan along with their multi-year expenditure reduction plan reduced Ontario's financial assistance to our provincially mandated services by 2.75 million dollars. As a result the Nindawayma did not operate, reducing our Georgian Bay ferry service to one vessel. Further reductions included the discontinuation of Twin Otter service to six northwestern Ontario communities in August.
- The provincial Social Contract was applied to our operations and while existing collective agreements which are under federal jurisdiction were not affected, a further reduction of 2.23 million dollars in provincial assistance was mandated. This target was met through the introduction of an early retirement incentive program which was accepted by 57 persons as of year end.
- The Northline, covering the 245 km Kapuskasing Subdivision between Cochrane and Calstock, was acquired from Canadian National in August after six years of negotiation requiring provincial and federal approvals. This addition brings total trackage up to 1100 km and provides opportunities for increased freight traffic.

Ontario Northland is taking steps to meet the challenges of continuing reductions in provincial financial assistance and increased competition during a difficult national and international economy. Our plans include an aggressive marketing strategy, implementation of further operating efficiencies and the adoption of a bottom-line approach to doing business and providing service.

Respectfully submitted on behalf of the Commission,

A handwritten signature in cursive script that reads "Matt Rukavina".

Matt Rukavina
Chair



President's Message

The Chairman has outlined the significant highlights of 1993, so I will limit my comments to the shift in direction being undertaken as we look to the future.

These are difficult times for Ontario Northland as we are experiencing declining public funding for non-commercial services, while both our customers and our services are facing increasing competition. In addition to this changing "market", changes in technology and regulation are impacting significantly on all of our operations.

The outlook, if we are to remain "status quo", is financially disturbing. Therefore, we commenced a detailed examination of Ontario Northland's relationships with its various stakeholders. This review is considered essential as we contemplate and determine our future role and direction. Input at this early stage from all stakeholders is critical, not only because of the important role that Ontario Northland has played for Northern Ontarians in the past, but to ensure that Ontario Northland continues to serve Northern Ontario in a meaningful way in the future.

An examination of the current situation showed an obvious need to reduce operating costs. In August, an early retirement incentive program was offered, which resulted in a reduction of 57 permanent full-time positions. Further, a review of all discretionary operating and capital expenditures was undertaken to meet the targeted Social Contract expenditure reductions.

Following my appointment on December 1st, an Organizational Restructuring Committee was formed to examine the senior levels of the management structure. Further reviews of middle and non-management positions will follow in a continuing effort to reduce costs.

For any change to succeed, justification for it must be clearly communicated and understood by all concerned. This called for an improvement in internal communications and adopting a more participative management style. For example, we met with union officials to discuss the impact of the Social Contract and encourage their participation in finding ways to deliver our services in the most cost effective manner, without sacrificing quality or safety.

I have been very impressed by the genuine concern expressed by employees throughout the Company about our longer-term future. I am confident, that with this dedication, we will be able to overcome the challenges that lie before us.

John Wallace
President and Chief Executive Officer

Rail Services

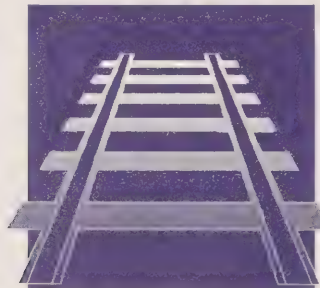
Rail Services provides rail freight transportation to northeastern Ontario and Rouyn-Noranda, Quebec, connecting with the CNR and CPR at North Bay; the CNR at Cochrane and Rouyn-Noranda and now the ACR at Hearst.

The August 15th takeover of the former CNR Kapuskasing Subdivision added 245 km of trackage and the Hearst connection with the Algoma Central Railway. Two major customers, Spruce Falls Paper at Kapuskasing and Mallette's at Smooth Rock Falls are now served directly by Ontario Northland. Track conditions had deteriorated prior to takeover and a major program of repairs was initiated by the Engineering Department, resulting in a return to full operating speeds before the end of the year.

Freight Marketing scored some significant gains in traffic. A six-year contract for movement of 300 to 500 thousand tonnes of high grade copper ore each year to Kidd and Rouyn-Noranda from Wisconsin, along with copper concentrates from Chile via the Port of Montreal effectively changed the ONR to an inbound carrier of mining products. Adjusting schedules, loading patterns and equipment modifications succeeded in getting time-sensitive newsprint traffic and lumber that was previously moving by truck. The heaviest single load in ONR history, a 550 thousand kilogram transformer, was moved by special train to Fraserdale for Ontario Hydro.

Contract work for outside parties continued to be a significant economic factor. The North Bay shops completed a \$4.3 million, 16 coach refurbishment contract begun in 1991 for VIA, and also achieved a valuable CSA Z 299.3 Quality Assurance Certification. The Engineering group completed a track construction contract for Kidd Creek Mines.

Operating efficiencies were achieved with a new computerized traffic control system, a track maintenance mechanization and a staff reorganization in which 27 Rail Services employees accepted early retirement incentives.



Passenger Services

Ontario Northland operated three passenger train services in 1993. The Northlander train ran daily except Saturday between Cochrane and Toronto. The Little Bear is a mixed train, passenger and freight, running between Cochrane and Moosonee twice a week during the Polar Bear season and three times per week during the rest of the year. The Polar Bear Express is a summer excursion train which operated six days per week between Cochrane and Moosonee from June 26 to September 6, 1993.

The Northlander experienced a 17% decline in ridership in 1993, mostly attributable to a 25% fare increase implemented in June in an effort to increase revenues. Conversely, the Polar Bear Express and Little Bear trains showed modest increases of 1% and 7% respectively.

Passenger equipment upgrades and uni-level car construction also continued as planned. These programs will eventually satisfy the short and long term requirements for all trains and reinforces Ontario Northland's commitment to provide upgraded state-of-the-art equipment for all of our rail passengers.

The Hannah Bay Goose Camp located on the coast of James Bay did not operate in 1993. Operating as a commercial service, it had in former years typically enjoyed a high occupancy rate during the hunting season and contributed a positive return. However, in recent years occupancy had declined to the point where continued operation was no longer economically viable.



Telecommunications

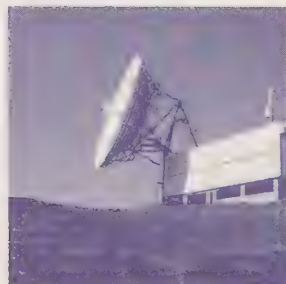
Ontario Northland Telecommunications (ONT) is a full service telecommunications carrier serving northeastern Ontario. ONT covers the region bounded by the Quebec border in the east, Flynn Lake in the west, North Bay in the south, and Hudson Bay in the north. The Ontario Northland Systems group (ONS), a department of the telecommunications division, operates as an IBM business partner marketing computer hardware and software, and information technology planning services throughout northern Ontario. Ontario Northland's most profitable division, ONT generated over 10 million dollars in operating income for the sixth consecutive year.

Operations include 14 business components of which the most important revenue sources are the long distance services of message toll, WATS and 1-800. These long distance services accounted for 78% of total ONT revenue in 1993.

Network improvements continued to enhance the quality of service, resulting in a significant reduction in reported troubles per 100 NAS (network access services) for both toll and local service.

In this technology-driven business, ONT strives to continually update and enhance its equipment and infrastructure. Projects completed in 1993 included the last phase of a major upgrade to local exchange facilities on Lake Temagami and the expansion of our Datapac switch in Timmins. Work in progress included a digital radio system from Timmins to North Bay and the upgrade of the Temagami exchange with a digital remote switch connected by fibre optics to the host.

In addition to network improvements, the Ministry of Transportation New Liskeard District mobile radio system was replaced and the Ontario Northland Rail Services mobile system was extended from Cochrane to Calstock. The division also completed a number of fibre optic based Local Area Network (LAN) design and installation projects at various mine sites located in northern Ontario.



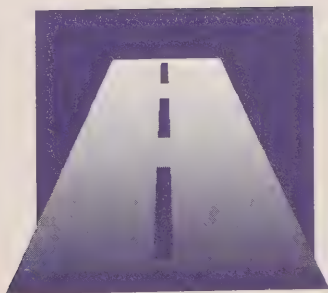
Bus Services

As a commercial non-subsidized operation, Bus Services strives to attain profitability while providing an important transportation service throughout northeastern Ontario.

1993 was the first full year of consolidated operation resulting from the acquisition of the Gray Coach northern routes connecting both North Bay and Sudbury to Toronto. Although the poor economy resulted in an 8% drop in overall boardings, there was a dramatic improvement in the bottom line.

Operating expenses were reduced by nearly \$1.5 million. Had one of the newest buses not been lost by fire, bus operations might have made a marginal profit. The complete route structure continues to be reviewed and analyzed in an effort to further improve cost effectiveness and attain profitability.

A dramatic increase in charter business along with strong performance on some of the major runs helped to offset losses from service to smaller communities which depend on Ontario Northland for regular scheduled service and access to the rest of the province.



norOntair

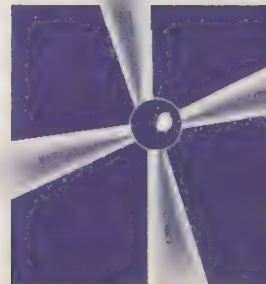
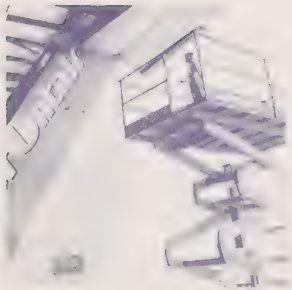
norOntair continued to provide reliable, safe and consistent commercial air service in the North. For many smaller communities, norOntair provides the only scheduled air link to major centres.

The airline fleet consists of two Dash-8's (37 passenger capacity), five Twin Otters (18 passenger) and one Navajo (6 passenger), with a base of operations located in Sault Ste. Marie.

The continued deregulation of the airline industry has resulted in an increase in the number of small regional airlines vying for business. Such competition from other carriers, particularly in the northwestern Ontario market, prompted norOntair to review its operations. A business decision was made to discontinue service to Atikokan, Dryden, Kenora, Pickle Lake, Red Lake and Terrace Bay effective August 1. This took two Twin Otters and the Navajo out of regular operation while norOntair continues to serve 17 communities.

The reduction in operations coupled with reduced boardings due to the economic downturn, accounted for an overall 15% decline in norOntair ridership.

The Dash-8 service competed effectively and continued to enjoy a high level of approval and patronage. The success of the Dash-8 service between the larger communities helps to subsidize the service to smaller communities which have insufficient boardings to sustain viability.



Marine Services

Marine Services operates ferries between Tobermory and South Baymouth on Georgian Bay, to Pelee Island on Lake Erie and to Moose Factory Island from Moosonee, as well as a cruise ship on Lake Nipissing.

Declining ferry traffic in recent years led to the decision to operate the Tobermory/South Baymouth service with only one vessel in 1993, the Chi-Cheemaun. The Nindawayma was taken out of service and remained docked at Owen Sound for the entire season as no opportunities were realized for leasing the vessel. The Nindawayma will be kept out of service until traffic levels increase sufficiently to justify such an expansion of capacity.

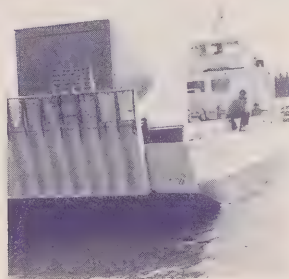
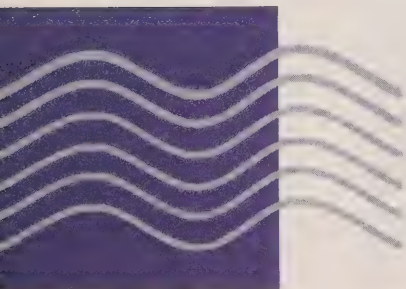
The ferry operation between Tobermory and South Baymouth showed a 4% decline in boardings in 1993. This was indicative of a sluggish economy and a province-wide drop in general tourism activity.

The Lake Nipissing cruise ship, the Chief Commanda II, had a 16% increase in ridership, but the loss per passenger remained high with expenses more than double the sales revenue. Restoring this important North Bay attraction to profitability remains a serious challenge. Considered a commercial venture, the Chief Commanda II is ONTC's only non-subsidized marine service.

The Manitou Island II barge/ferry provides a vital passenger and freight transportation link between Moosonee and Moose Factory Island. The aging engines of this vessel caused some unreliability in service, including at one point a week long cancellation.

Ontario Northland's newest involvement in marine services is the Pelee Island ferry service linking Kingsville and Leamington with Pelee Island and Sandusky, Ohio. 1993 was the first full year operating this service under contract for the Ministry of Transportation of Ontario.

The Pelee Island ferries include the M.V. Pelee Islander, the M.V. Upper Canada, and the new roll-on roll-off ferry, the M.V. Jiimaan. Reserved as a back-up, the Upper Canada did not operate in 1993. The Jiimaan had been introduced into service in July 1992 and was directly responsible for the overall 33% increase in traffic.



Development

Property management concentrated on efforts to lease vacant space in the Kirkland Lake office building, the former Gray Coach bus station in Barrie, and five former Star Transfer warehouses in northeastern Ontario.

One initiative in 1993 was the relocation of the deteriorating and unused Chief Commanda I to a fixed location on the shore of Lake Nipissing. It was renovated to serve as a visible North Bay tourist attraction and leased out as a private restaurant operation.

Recognizing fiscal constraints, further development projects were put on hold in 1993.

Ontario Northland International Consulting Services (ONICS) maintained contact with various international organizations and continues to monitor potential opportunities.



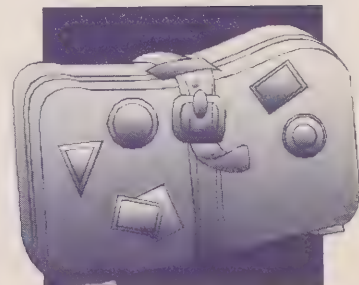
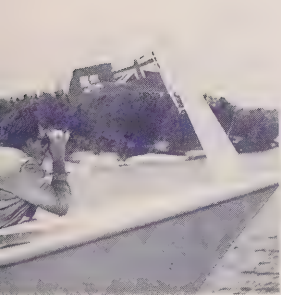
Tourism

1993 saw a continuation of the MAKE IT YOURS campaign which focused on increasing northern Ontario's share of domestic and international tourism markets.

Both individually and in partnership with other northern Ontario tourism promoters, Ontario Northland Tourism expanded its marketing efforts to include more consumer and trade shows, more print advertising and better media relations.

Despite a favourable response to this promotion, ridership totals for the year were mixed. The Polar Bear Express excursion train, the Little Bear mixed train, the Chief Commanda II cruise vessel and the Pelee Island ferry service showed increases while the Northlander passenger train, the Chi-Cheemaun ferry, Bus Services and norOntair showed declines in traffic.

Based on these varied results it was decided to refocus our marketing efforts and the last quarter of the year was spent developing a more product specific campaign for the 1994 season.



Star Transfer

The Star Transfer trucking division was closed in 1993. In recent years, Star Transfer had suffered continued operating losses, unable to contend with the effects of deregulation and increased price competition from independent truckers.

Every effort was made in an attempt to transfer the operation to a new employee-owned corporation. However, following independent financial consultation, the employees made a group decision not to take on the risk involved in starting up a new venture.

In April, the trucking operations were discontinued and the division was dissolved. Some 65 employees either found other employment with Ontario Northland, went on pension, or were laid off receiving severance payments. Net assets of the division were disposed of by way of public auction except for the buildings and land which were retained by ONTC.



Auditors Report

To the Ontario Northland Transportation Commission
and to the Minister of Northern Development and Mines

I have audited the consolidated balance sheet of the Ontario Northland Transportation Commission as at December 31, 1993 and the consolidated statements of operations and retained earnings, contributed surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 1993 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Erik Peters, FCA
Provincial Auditor

Toronto, Ontario
March 26, 1994

Consolidated Balance Sheet

As at December 31
(dollars in thousands)

1993

1992

Assets

Current Assets

Cash and short-term investments	\$ 12,421	\$ 6,028
Accounts receivable	15,948	21,335
Materials and supplies	9,121	9,008
Prepaid expenses	404	512
	<u>37,894</u>	<u>36,883</u>

Self-Insurance Fund (Note 1) - Market Value \$4,302; (1992 - \$3,772) 3,909 3,568

Investment in Capital Assets (Schedule 1) 235,432 230,779

Other Assets (Note 2) 5,480 6,366

\$ 282,715 \$ 277,596

Liabilities and Equity

Current Liabilities

Accounts payable and accrued charges	\$ 15,319	\$ 12,286
Deferred revenue	340	149
Current portion of long-term debt	1,000	1,000
	<u>16,659</u>	<u>13,435</u>

Provision for Self-Insurance (Note 1) 3,909 3,568

Long-Term Debt (Note 4) 39,208 40,208

59,776 57,211

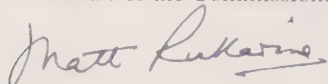
Commitments and Contingencies (Note 11)

Province of Ontario Equity

Contributed surplus	13,603	12,015
Retained earnings	209,336	208,370
	<u>222,939</u>	<u>220,385</u>

\$ 282,715 \$ 277,596

On Behalf of the Commission:



M.K. Rukavina, Chairman



K.J. Wallace, President and CEO

Consolidated Statement of Operations and Retained Earnings

For the year ended December 31
(dollars in thousands)

	1993	1992
Operating Revenues (Schedule 2)	\$ 153,289	\$ 143,758
Operating Expenses (Schedule 2)	138,238	133,407
Operating Income from Continuing Operations	15,051	10,351
Other Expenses		
General administrative expenses	10,412	9,581
Retirement incentive (Note 5)	2,446	-
Social Contract commitment (Note 6)	1,672	-
Write-off of interest receivable (Note 7)	-	2,228
Investment and other income	(1,633)	(895)
Interest expense	131	160
	13,028	11,074
Income (Loss) from Continuing Operations	2,023	(723)
Discontinued Operations (Note 10)		
Loss from operations of discontinued Transport/Express Services division	(1,057)	(2,141)
Loss on disposal of Transport/Express Services division, including provision for severance payments to employees	-	(1,462)
Total Loss from Discontinued Operations	(1,057)	(3,603)
Net Income (Loss) for the year	966	(4,326)
Retained Earnings - beginning of year	208,370	212,696
Retained Earnings - end of year	\$ 209,336	\$ 208,370

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements

Consolidated Statement of Contributed Surplus

For the year ended December 31
(dollars in thousands)

	1993	1992
Balance - beginning of year	\$ 12,015	\$ 11,706
Add: Rail passenger equipment upgrade	3,300	2,400
Less: Amortization	1,712	2,091
Balance - end of year	\$ 13,603	\$ 12,015

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Financial Position

For the year ended December 31
(dollars in thousands)

	1993	1992
Operating Activities		
Income (loss) from continuing operations	\$ 2,023	\$ (723)
Loss from discontinued operations (Note 10)	(1,057)	(3,603)
Net income (loss) for the year	966	(4,326)
Items not affecting cash		
- amortization	10,274	10,897
	11,240	6,571
Changes in non-cash working capital balances		
Decrease in accounts receivable	5,387	2,198
(Increase) decrease in materials and supplies	(113)	960
Decrease in prepaid expenses	108	199
Increase in accounts payable and accrued charges	3,033	671
Increase (decrease) in deferred revenue	191	(936)
	19,846	9,663
Financing Activities		
Reduction of term bank loan	(1,000)	(1,000)
Proceeds from Province of Ontario	3,300	2,400
	2,300	1,400
Investing Activities		
Investment in capital assets	(18,247)	(7,360)
Proceeds from sale of capital assets	1,725	1,142
Decrease in other assets	769	649
	(15,753)	(5,569)
Increase in Cash and Short-Term Investments during the year	6,393	5,494
Cash and Short-Term Investments - beginning of year	6,028	534
Cash and Short-Term Investments - end of year	\$ 12,421	\$ 6,028

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Schedule Of Investment in Capital Assets

Schedule 1

December 31 (dollars in thousands)	Cost	Accumulated Amortization	1993 Net Book Value	1992 Net Book Value
Rail Services				
Roadway	\$ 135,417	\$ 47,569	\$ 87,848	\$ 84,272
Buildings	34,229	6,763	27,466	34,307
Equipment	65,107	25,519	39,588	37,169
Telecommunications				
Equipment	72,991	43,146	29,845	32,789
Buildings	3,154	968	2,186	2,246
Air Services				
Aircraft	15,092	13,431	1,661	2,684
Buildings	1,869	795	1,074	1,168
Equipment	2,071	2,071	-	-
Transport/Express Services (Note 10)				
Vehicles	-	-	-	610
Land and buildings	-	-	-	190
Equipment	-	-	-	104
Marine Services (Owen Sound)				
Vessels	20,772	7,197	13,575	14,267
Land and buildings	126	32	94	97
Equipment	244	241	3	8
Bus Services				
Coaches	8,419	3,408	5,011	5,639
Land and buildings	2,000	13	1,987	1,994
Franchises	298	119	179	208
Marine Services (North Bay and Moosonee)				
Vessels	921	579	342	370
Buildings	105	36	69	72
Development				
Land and buildings	6,387	680	5,707	-
Equipment	27	26	1	-
Under construction	18,796	-	18,796	12,585
	\$ 388,025	\$ 152,593	\$ 235,432	\$ 230,779

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements

Consolidated Schedule of Operating Revenues and Expenses

Schedule 2

For the year ended December 31
(dollars in thousands)

	1993	1992
Rail Services		
Sales revenue	\$ 55,527	\$ 47,440
Government reimbursement (Note 8)	20,246	17,270
Total revenue	75,773	64,710
Expense	68,969	64,163
Income from operations	6,804	547
Telecommunications		
Sales revenue (Note 9)	43,797	44,489
Expense	33,664	32,647
Income from operations	10,133	11,842
Bus Services		
Sales revenue	10,992	11,306
Expense	11,461	12,926
Loss from operations	(469)	(1,620)
Air Services		
Sales revenue	9,929	11,014
Government reimbursement (Note 8)	3,157	3,860
Total revenue	13,086	14,874
Expense	14,697	15,758
Loss from operations	(1,611)	(884)
Marine Services (Owen Sound)		
Sales revenue	4,698	4,816
Government reimbursement (Note 8)	1,100	1,860
Total revenue	5,798	6,676
Expense	5,868	6,908
Loss from operations	(70)	(232)
Marine Services (Pelee Island)		
Sales revenue	3,040	2,787
Expense	2,764	2,534
Income from operations	276	253

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Schedule of Operating Revenues and Expenses (continued)

Schedule 2

For the year ended December 31
(dollars in thousands)

	1993	1992
Marine Services (North Bay)		
Sales revenue	110	106
Expense	282	264
Loss from operations	(172)	(158)
Marine Services (Moosonee)		
Sales revenue	107	85
Government reimbursement (Note 8)	80	110
Total revenue	187	195
Expense	132	134
Income from operations	55	61
Development (Office Building)		
Sales revenue	506	882
Expense	393	353
Income from operations	113	529
Tourist Facilities (Hannah Bay)		
Sales revenue	-	98
Expense	8	85
(Loss) income from operations	(8)	13
Total Operations		
Sales revenue	128,706	120,658
Government reimbursement (Note 8)	24,583	23,100
Operating revenues	153,289	143,758
Operating expenses	138,238	133,407
Operating income from continuing operations	15,051	10,351
Discontinued Operations (Note 10)		
Loss from operations of discontinued Transport/Express Services division	(1,057)	(2,141)
Loss on disposal of Transport/Express Services division, including provision for severance payments to employees	-	(1,462)
	(1,057)	(3,603)
Operating Income	\$ 13,994	\$ 6,748

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Summary of Significant Accounting Policies

As at December 31, 1993

Basis of Accounting	These consolidated financial statements are prepared by management in accordance with generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Star Transfer Limited, The Owen Sound Transportation Company, Limited, Air-Dale Limited and Nipissing Central Railway Company.																				
Materials and Supplies	With the exception of used rail and bulk diesel fuel, all materials and supplies are valued at the most recent price paid. Used rail is shown at unamortized book value determined at the time of retirement and bulk diesel fuel is valued at average cost.																				
Investment in Telesat Canada	Investment in Telesat Canada is stated at acquisition cost.																				
Investment in Capital Assets and Amortization	<p>Capital assets are stated at acquisition cost. Amortization is calculated using the straight-line method over the estimated service lives of the assets.</p> <p>The estimated service lives for principal categories of assets are as follows:</p> <table><tr><td>Roadway - main line and branches</td><td>20 to 50 years</td></tr><tr><td>Railway diesel locomotives</td><td>25 years</td></tr><tr><td>Railway cars</td><td>33 years</td></tr><tr><td>Marine vessels</td><td>20 to 30 years</td></tr><tr><td>Buildings</td><td>50 years</td></tr><tr><td>Telecommunications equipment</td><td>15 years</td></tr><tr><td>Aircraft</td><td>10 years</td></tr><tr><td>Vehicles</td><td>3 years</td></tr><tr><td>Coaches</td><td>12 years</td></tr><tr><td>Bus franchises</td><td>10 years</td></tr></table> <p>The Province of Ontario reimburses the Commission for the cost of certain capital assets purchased for use in operations designated as non-commercial by the Province. The Commission records these assets at their original cost together with an offsetting credit to contributed surplus. Annual amortization on these capital assets is recorded as a reduction of contributed surplus.</p>	Roadway - main line and branches	20 to 50 years	Railway diesel locomotives	25 years	Railway cars	33 years	Marine vessels	20 to 30 years	Buildings	50 years	Telecommunications equipment	15 years	Aircraft	10 years	Vehicles	3 years	Coaches	12 years	Bus franchises	10 years
Roadway - main line and branches	20 to 50 years																				
Railway diesel locomotives	25 years																				
Railway cars	33 years																				
Marine vessels	20 to 30 years																				
Buildings	50 years																				
Telecommunications equipment	15 years																				
Aircraft	10 years																				
Vehicles	3 years																				
Coaches	12 years																				
Bus franchises	10 years																				
Self-Insurance Fund	The self-insurance fund assets are stated at acquisition cost.																				
Other Assets	Goodwill is stated at cost and is amortized using the straight-line method over 10 years.																				
Income Taxes	As an agency of the Province of Ontario, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.																				
Vacation Pay	The Commission accounts for vacation entitlement payments on a cash basis.																				

Notes to Consolidated Financial Statements

December 31, 1993

1. Self-Insurance Fund

The Commission follows the policy of self-insuring against damages from rolling stock derailments and for cargo damage. Annual contributions to the self-insurance fund consist of a \$100,000 premium paid by the Commission in addition to investment income earned on fund assets. Fund assets are comprised of investments in federal and provincial government bonds.

2. Other Assets

Other assets are comprised of the following:

	1993	1992
Investment in Telesat Canada	\$ -	\$ 150,000
Goodwill	797,000	857,000
Deferred pension charge (Note 3)	4,683,000	5,359,000
	<hr/>	<hr/>
	\$ 5,480,000	\$ 6,366,000

The investment in Telesat Canada, comprised of 15,000 common shares, was sold during the year for proceeds of approximately \$737,000. The gain on the sale amounting to \$587,000 has been recorded in investment income.

3. Deferred Pension Charge

The Commission is the trustee for its contributory pension plan which covers all permanent staff.

The net cost of pension benefits is actuarially determined on the basis of management's best estimates using the projected benefit method pro-rated over the service lives of the employees. The net cost of pension benefits includes the amortization over the remaining service lives of the plan members of the initial net pension surplus and the 1993 experience gain. Pension plan assets were valued at a market related value based on recognizing the difference between book and market values at each year end over a five year period.

The Commission's share of the net cost of pension benefits earned by employees during the year was \$3,105,000 (1992 - \$3,021,000). In 1993 the Commission funded the amount of \$2,429,000 (1992 - \$2,373,000). The accumulated excess of the funded amount over the net cost of benefits earned is recorded as a deferred pension charge which is included in other assets on the balance sheet.

The actuarial valuation prepared for accounting purposes as at December 31, 1993 disclosed plan assets of \$264,155,000 (1992 - \$238,202,000) and accrued pension benefits of \$244,979,000 (1992 - \$234,974,000). This valuation assumed an expected rate of return on plan assets of 7-1/2 percent and projected pay increases of 5-1/2 percent.

Notes to Consolidated Financial Statements

December 31, 1993

4. Long-Term Debt

Long-term debt is comprised of the following:

	1993	1992
Loan from Province of Ontario, non-interest bearing with no specific terms of repayment.	\$ 35,208,000	\$ 35,208,000
Term bank loan bearing interest at the bank's prime lending rate and with fixed annual principal repayments extending over 3 years	5,000,000	6,000,000
	40,208,000	41,208,000
Less: current portion	1,000,000	1,000,000
	<u>\$ 39,208,000</u>	<u>\$ 40,208,000</u>

Principal repayments due in each of the next three years are as follows:

1994	\$ 1,000,000
1995	\$ 1,000,000
1996	\$ 3,000,000
	<u>\$ 5,000,000</u>

5. Retirement Incentive

In connection with cost saving measures brought about by the provincial social contract, incentives to retire were offered to Commission employees. A total of 57 employees have accepted the offer at a cost of \$2,446,000.

6. Social Contract Commitment

The Commission was affected by the provincial social contract legislation. Under the terms of a sectoral framework agreement, the Commission is required to pay \$2,230,000 annually to the Province of Ontario for 3 years, beginning in 1993. This payment will be made to the Province of Ontario at its fiscal year end. The figure reflected in the Commission's financial records represents the obligation for 9 months under this agreement.

7. Write-off of Interest Receivable

The Commission had charged the Ministry of Northern Development and Mines for interest in connection with the purchase of the ferry vessel Nindawayma in 1989. It had become evident that payments for this interest would not be forthcoming and accordingly, they were written off.

Notes to Financial Statements

December 31, 1993

8. Government Reimbursement

In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines, certain operations of the Commission have been designated as non-commercial. The Commission and the Ministry entered into a fixed price contract which defined the amount of compensation which the Province of Ontario provided for the year 1993.

A portion of the operating loss of the weekday passenger train service between North Bay and Toronto is reimbursed by the National Transportation Agency of Canada under Section 270 of the Railway Act.

Details of Government Reimbursement are as follows:

	1993	1992
From Province of Ontario:		
Rail - Passenger Service and Moosonee Branch	\$ 15,163,000	\$ 15,170,000
Air Services	3,157,000	3,860,000
Marine Services (Moosonee)	80,000	110,000
Marine Services (Owen Sound)	1,100,000	1,860,000
	<u>19,500,000</u>	<u>21,000,000</u>
From National Transportation Agency:		
Current years operations	2,430,000	2,100,000
Adjustments from prior years	2,653,000	-
	<u>5,083,000</u>	<u>2,100,000</u>
	<u>\$ 24,583,000</u>	<u>\$ 23,100,000</u>

This note should be read in conjunction with Note 6, Social Contract Commitment.

9. Telecommunications Revenue Agreements

The Commission has revenue-sharing agreements with Bell Canada and Northern Telephone Limited, subsidiaries of Bell Canada Enterprises Inc. These revenue-sharing agreements may be terminated by either party after giving 180 days and 60 days prior notice, respectively. Approximately 71 percent (1992 - 70 percent) of telecommunications revenue depend on these agreements.

10. Discontinued Operations

In December 1992, the Commission implemented a plan to discontinue the Transport/Express Services division (Star Transfer Limited). The phase out period extended into the first quarter of 1993. The results of operations of this division for the period January 1, 1993 to April 17, 1993 and January 1, 1992 to December 31, 1992 are included in Discontinued Operations - Loss from operations of discontinued Transport/Express Services division. Net assets of the division were disposed of by way of public auction except for the buildings and land which were retained by the Commission. Net assets of the division were valued at \$1,483,000 as at December 31, 1992. Sales for the year amounted to \$819,000 (1992 - \$4,016,000).

Notes to Financial Statements

December 31, 1993

11. Commitments and Contingencies

Various statements of claim have been issued against the Commission claiming damages. Damages, if any, cannot be estimated at this time and in any event the Commission is of the opinion that these claims would be unfounded or covered by insurance. Should any loss result, it would be charged to operations when the amount is ascertained.

12. Government Assistance

Under an agreement dated February 24, 1992 the Commission is eligible to receive \$4,250,000 in loan proceeds from the Northern Ontario Heritage Fund Corporation, (The Heritage Fund) to assist with the purchases of certain specified capital assets. In accordance with the terms of the agreement, the Commission must lease the assets to Algoma Central Railway for a nominal fee of \$1 per year. The loan is non interest bearing and may be repaid at a mutually agreed date between the Commission and the Heritage Fund by conveyance of the title of the assets to the Heritage Fund. As at December 31, 1993 a total of \$3,949,000 has been received and has been recorded as a reduction to the cost of the capital assets.

13. Comparative Figures

Prior year's figures have been reclassified where necessary to conform to the current year's presentation.



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1994 Annual Report

Ontario Northland

The 94th Annual Report
of the Ontario Northland Transportation Commission
for the year ending
December 31, 1994



Ontario

Province of Ontario

Honourable Mike Harris
Premier

Honourable Chris Hodgson
Minister of Northern Development and Mines



The Honourable Henry N.R. Jackman
O.St.J., B.A., L.L.B., L.L.D.
Lieutenant Governor of the Province of Ontario

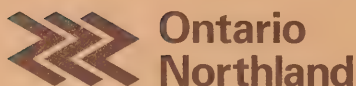
May it please your Honour:

I beg leave to present the 94th annual report of the
Ontario Northland Transportation Commission for the
year ending December 31, 1994.

Respectfully submitted,

A handwritten signature in cursive script, reading "Chris Hodgson".

Chris Hodgson
Minister of Northern Development and Mines



The Honourable Chris Hodgson
Minister of Northern Development and Mines
Parliament Buildings
Toronto, Ontario

Sir:

I beg to submit the annual report for the year 1994 of
the Ontario Northland Transportation Commission,
and I have the honour to be, Sir,

Yours faithfully,

A handwritten signature in cursive script, reading "M.K. Rukavina".

M.K. Rukavina
Chairman, ONTC

Principal Officers

K.J. Wallace
President & CEO

C.M. Boston
Vice-President
Administration and Development
(Jan - Mar)

S.G. Carmichael
Vice-President
Finance
(Jan - Mar)

Vice-President
Finance and Administration
(Apr - Dec)

R.S. Hutton
Vice-President
Telecommunications Services

E. Marasco
Vice-President
Passenger Services

K.J. Moorehead
Vice-President
Rail Services

T. O'Connell
Counsel

Ontario Northland Transportation Commission

M.K. Rukavina
Chairman
Kapuskasing

R.W. Carlyle
Commissioner
New Liskeard

D.S. Hughes
Commissioner
Cochrané

B. Hughson
Commissioner
Chelmsford

P.A. Kelly
Commissioner
North Bay

L. Marin
Commissioner
Timmins

L. Marshall
Commissioner
North Bay

P. Nakogee
Commissioner
Moosonee

W.L. Spottiswood
Commissioner
Fort Frances

C.C. White
Commissioner
Birch Island

Chairman's Message



The Commission continued its practice of holding every second monthly meeting away from the North Bay head office. During the year, meetings were held in Sault Ste. Marie, Englehart, Kirkland Lake, Rouyn/Noranda, Cochrane, Moosonee / Moose Factory and Kapuskasing. At these meetings throughout the service territory, informal sessions are held with community and area leaders to develop an appreciation and understanding of each others needs, desires and capabilities.

In response to a demonstrated need to examine the continuing viability of the organization with decreased dependence upon provincial financial assistance, a greater market share of potential business and increased efficiency and cost-effectiveness, a restructuring plan for the corporate structure of Ontario Northland was developed and the first phase implemented in April 1994. A second phase reaching further down into the corporation is planned for 1995.

A policy was established to concentrate efforts in those fields that Ontario Northland is best at: transportation and telecommunications, and to divest itself of some unrelated services. As a result, the Hannah Bay Goose Camp was closed after arrangements were completed to transfer it to the Moose Cree First Nation; negotiations were undertaken with the City of North Bay to operate the Chief Commanda II cruise ship and a coordinating committee was established with stakeholders in the Moosonee and Moose Factory area to share responsibility for the destination attractions at James Bay.

A visioning exercise was commenced, scheduled for completion in 1995, to collectively determine where Ontario Northland should be headed in the long range - 5 to 10 years. A group representing the Commission, senior management and the Ministry of Northern Development and Mines has been assigned the task of arriving at a supportable vision based on broad consultation. A request for input was forwarded to 374 groups representing stakeholders, customers, employees and the general public.

Ontario Northland continues to have to cope with declining provincial funding in the operation of the non-commercial services mandated by the province (rail passenger, ferry operation and nonOntair services). The funding decrease amounted to 24.4 per cent over the past two years with a further announced decrease of at least 4.4 per cent for next year. Provincial finances will no doubt dictate the need for still further reductions in 1996 and beyond.

Our assignment is to reformulate the organization so that it can cope with the challenges of the remainder of this decade and into the next century. We are confident that Ontario Northland can and will meet all expectations.

Respectfully submitted on behalf of the Commission,

A handwritten signature in dark ink, reading "Matt Rukavina". The signature is fluid and cursive, with the first name "Matt" and last name "Rukavina" clearly distinguishable.

Matt Rukavina
Chair

President's Message



1994 was a difficult year at Ontario Northland as we endeavoured to adapt to the direction of the Provincial Government to reduce the costs of providing services and become less reliant on government funding. A most important initiative in this regard was the April 1st implementation of the first phase of our corporate restructuring. The rationale for restructuring, communicated to all employees in mid-April, identified six objectives.

- to be more responsive to customer requirements
- to develop a participative management style involving all employees
- to develop an improved liaison with government
- to be more efficient and effective in providing our various services
- to address the implications of declining government funding
- to be fair to our employees when addressing the impact of downsizing

If Ontario Northland is to continue, we must recognize the changing environment pertaining to publicly owned agencies, along with the ever changing marketplace, be it regulatory and/or competitive changes, and the necessity on our part to adapt to this changing environment to ensure our longer term viability.

While we achieved a modest profit in 1994, losses continued in several operational areas, particularly in Air and Bus services. Various efforts were made to reduce our losses, such as closing the Porquis and Iroquois Falls stations, discontinuing the Hannah Bay operation and reducing our involvement with the Chief Commanda II on Lake Nipissing. Several initiatives were also implemented to increase utilization and revenue, including an open house in many northern communities with our Northlander train, along with several special fare promotions, all in an effort to reverse a trend of declining ridership.

Negotiations with most of our unions took place in 1994 and, while successful at the bargaining table with the majority of our employees, we were not as fortunate with the norOntair pilots and Associated Shop Unions (ASU). The norOntair pilots, who were negotiating for a first contract, called a strike on May 20th, which lasted for 37 days before a settlement was reached. With the ASU, efforts to reach a settlement before winter failed, and the Company was left with little choice and took the unprecedented action of locking out the shop employees on November 27th. The lockout lasted 88 days before a settlement was finally concluded in late February 1995. This situation was indeed most unfortunate, however, treating all employees on a fair and consistent basis and achieving the objectives as listed above are paramount.

In closing, I am confident that we all can and will work together in dealing with the difficult issues and challenges that lie ahead because Ontario Northland's future is an issue that we all should be concerned about.

A handwritten signature in dark ink, appearing to read "John Wallace". The signature is stylized with a large, sweeping loop at the end.

John Wallace
President and Chief Executive Officer

Rail Services

Rail Services provides rail freight transportation to northeastern Ontario and Rouyn-Noranda, Québec, connecting with CN and CP at North Bay, the CN at Rouyn-Noranda, and the Algoma Central at Hearst. It also operates the passenger trains for the Passenger Services division. During 1994, freight car loadings increased by more than 3 per cent, primarily in the areas of inbound copper ore, outbound sulphuric acid and outbound forest products. Total freight car revenues experienced a similar increase.

In the area of contract work, a two-year locomotive truck rebuilding contract for VIA Rail was completed. This project, along with other smaller projects in the Mechanical and Engineering areas, provided a significant contribution to Rail Services' bottom line.

In order to retain our freight carrying capability, a three-year program was initiated, which will result in the complete rebuilding of our 98-car, 100-ton gondola fleet.

During 1994, the first of three rebuilt passenger locomotives for service on the Northlander, was completed. This project, which was carried out by our own forces in our own shop, resulted in the transformation of a 40-year-old locomotive shell into a virtually new locomotive with a 2050 H.P. engine and state-of-the-art features, for less than 70 per cent of the cost of a new locomotive.



Work programs by our Track forces renovated portions of our main lines and yards, while our Structures' forces carried out facility improvements at Moosonee and New Liskeard stations and the bus garage in North Bay. Our Signals forces added an additional state-of-the-art hot journal detector site on the Kirkland Lake Subdivision, and upgraded the technology at some of the other sites. This work, in conjunction with upgrades on flashing light protection at crossings, will enhance the safety of our train operations, as well as the travelling public.

In November of 1994, contract disputes with the unions representing our Mechanical Department workers, forced the company to lock these employees out. This lockout continued until almost the end of February 1995 before the dispute was settled. Although during this period the Northlander passenger train service had to be cancelled, all freight and mixed trains ran as scheduled so that no freight or express customer was inconvenienced.



Ontario Northland operated three passenger train services in 1994. The Northlander train ran daily, except Saturday, between Cochrane and Toronto. Due to a labour dispute, it did not operate after November 27, 1994. The Little Bear is a mixed train, passenger and freight, running between Cochrane and Moosonee twice a week during the Polar Bear Express season and three times per week during the rest of the year. The Polar Bear Express is a summer excursion train, which operated six days per week between Cochrane and Moosonee from June 25 to September 5, 1994.

Northlander ridership continued to decline in 1994. Various promotional incentives were introduced which were beginning to have a positive impact. In the last quarter of 1994, before the labour dispute, Northlander ridership was showing increases over 1993. The Polar Bear Express and Little Bear trains showed increases of 1 per cent and 6 per cent, respectively.

Passenger equipment upgrades and uni-level car construction continued. These programs will eventually satisfy the short and long-term requirements for all trains and reinforces Ontario Northland's commitment to provide upgraded state-of-the-art equipment for all of our rail passengers.

The Hannah Bay Goose Camp, located on the coast of James Bay, did not operate in 1994. The camp's assets were turned over to the Moose Cree First Nation, conditional on the satisfactory clean up of the campsite and the granting of a Land Use Permit by the Ministry of Natural Resources.

The Cochrane Station Inn showed excellent patronage, service and bottom line improvements in 1994. This was the first year that the Inn was under full operational control of Ontario Northland staff.



elecommunications

Ontario Northland Telecommunications (ONT) is the long distance carrier serving the region of northeastern Ontario between North Bay in the South and Hudson Bay in the North. ONT operates a full

range of telecommunications services, including message toll, 1-800, private line voice and data services, mobile radio and some local telephone service.

In 1994, ONT conducted public awareness surveys and found that less than 10 per cent of customers knew that ONT is their long distance service provider. As a result, ONT launched a multi-faceted campaign to broaden public awareness and to promote the wide range of services offered.

ONT, along with all other independent telephone companies, is now under federal jurisdiction and is regulated by the CRTC.

Technological advances and customer expectations are driving the telecommunications industry toward greater service integration. Recognizing the escalating importance of information technology, ONT has adopted the following as its mission statement:

"To make Northern Ontario a better place to live and do business through solutions based on Information Technology."



Ontario Northland Systems (ONS), a department of the Telecommunications division, provides consulting services and information technology planning. As an IBM business partner, ONS markets a wide range of computer hardware and software solutions. Working together, ONS and ONT provide Ontario Northland with the ability to provide total information technology solutions for businesses in Northern Ontario.

The 1994 Telecommunications capital program included a major upgrade to the DMS-200 toll switch in Timmins, the installation of a DMS-10 remote switch in Temagami, and the completion of a new digital microwave radio system

from Timmins to North Bay. The microwave system between Moosonee and Fort Albany on the James Bay coast was also upgraded with voice channel capacity increased from 120 to 300.

B us Services

As a commercial operation, Bus Services continues to strive to attain profitability, while providing an important transportation service linking northeastern Ontario with southern Ontario.

There was a 3 per cent drop in regular ridership in 1994. While still a decrease, it represents an

The charter business experienced a slight decrease of 1.5 per cent. The Bus Parcel express business increased by an encouraging 8 per cent.

Operating expenses increased by approximately 4 per cent. A significant contributing factor to this increase was an inordinate number of engine failures

and overhauls, indicative of an aging fleet. Two new buses were ordered for delivery in the spring of 1995.

The complete route structure continues to be reviewed and analysed in an effort to further improve cost effectiveness and attain profitability. Strong performance on some of the

improvement over the large reductions experienced industry wide in recent years. The ridership shortfall had a significant negative impact on revenues and the bottom line.

major runs helped to offset losses from service to smaller communities, which depend on Ontario Northland for regular scheduled service and access to the rest of the province.



norOntair continued to provide reliable, safe and consistent commercial air service to 17 northeastern and northwestern Ontario communities. For many smaller communities, norOntair provides the only scheduled air link to major centres.

The airline fleet consists of two Dash-8's (37-passenger capacity), five Twin Otters (18-passenger) and one Navajo (six-passenger), with a base of operations located in Sault Ste. Marie. The reduction of service to northwestern Ontario in 1993 resulted in a surplus of one Twin Otter and the Navajo. norOntair actively sought sale and/or lease opportunities for these two aircraft and were successful in leasing the Navajo for six months.

The continued deregulation of the airline industry has resulted in an increase in the number of carriers vying for Northern Ontario passengers. Such competition from other carriers is prompting norOntair to continuously review its operation and schedules.

Ontario Northland was involved in first collective agreement negotiations with the pilots represented by the Canadian Airline Pilots Association (CALPA). This resulted in a five-week strike during the months of May and June.

After adjustment for the 1993 reduction in service in northwestern Ontario, there was an overall decline in passenger boardings of 21 per cent. This can mostly be attributed to a suspension of air service due to the strike. Following the strike, ridership began to climb again and the fourth quarter showed an increase in ridership of approximately 4 per cent over the same period in 1993.



M

arine Services

In 1994, Marine Services operated ferries between Tobermory and South Baymouth on Georgian Bay, to Pelee Island on Lake Erie and to Moose Factory Island from Moosonee, as well as a cruise ship on Lake Nipissing.



In 1994 all of the ferry traffic between Tobermory and South Baymouth was accommodated with the Chi-Cheemaun. The Nindawayma remained docked at Owen Sound for the entire season as no opportunities were realized for leasing the vessel. It will be kept out of service until traffic levels increase sufficiently to justify such an expansion of capacity.

The ferry operation between Tobermory and South Baymouth showed an encouraging 4 per cent increase in boardings in 1994. This was indicative of a recovering economy and a province-wide increase in general tourism activity.

The Lake Nipissing cruise ship, the Chief Commanda II, had an overall increase in regular and charter

ridership of 12.5 per cent. While there was a significant bottom line improvement in the operation of the Chief Commanda II, recording one of the better financial performances since its introduction into service, the losses remained unacceptably high.

In an effort to improve the negative impact on ONTC and to secure the future of this important North Bay attraction, the Commission had discussions with City of North Bay officials in an effort to arrive at a possible joint venture which would see the Chief Commanda II remain on Lake Nipissing.

The Manitou Island II barge/ferry provides a

vital passenger and freight transportation link between Moosonee and Moose Factory Island. The aging engines of this vessel again caused some unreliability in service in 1994.

The Pelee Island ferry service on Lake Erie, linking Kingsville and Leamington with Pelee Island and Sandusky, Ohio includes the M.V. Pelee Islander, the M.V. Upper Canada, and the new roll-on roll-off ferry, the M.V. Jiimaan. Reserved as a back-up, the Upper Canada did not operate in 1994. It was leased to the Beausoleil First Nations for operation between Christian Island on Georgian Bay and the mainland. The overall increase in ridership in the Pelee Island service was an impressive 30 per cent.

D

evelopment

The sale of the CN "Excluded Lands" in Hearst and Cochrane to the business tenant occupants was an active and successful component of property management functions in 1994. Other surplus properties along our mainlines were also sold.



Many of the leases inherited from CN along the Northline, as well as our own renewals, were updated during the year.

The rental situation in the Kirkland Lake Office

Building/Bus Terminal improved significantly with the addition of the Ministry of Northern Development and

Mines and the Ministry of Community and Social Services offices in the fall. Lease revenues from the rental of space in the former Star Transfer warehouses increased during the year.

Work commenced on the development of a Property Management System and the identification of surplus properties throughout the whole system.

C

orporate Affairs and Planning

In April, as part of the restructuring, the Corporate Affairs and Planning group was introduced, with responsibilities for Corporate Planning, Property Management, and Public Affairs.

Corporate Planning activities included development of the Five-year Corporate Plan, Capital Plans for Commercial and Non-Commercial operations, and opinion surveys of stakeholders, public, and customers.

Property Management activities were as reported above under Development.

The reorganized Communications and Public Affairs group introduced the monthly newsletter, ON News, and was actively engaged in dealing with the media during the two labour disruptions. Public Affairs staff also acted in a coordinating function with different marketing groups, and handled communications with government agencies.

Corporate advertising, displays at Consumer and Trade Shows, and coordination of various Public Relations activities continued to be a priority.

Tourism

The focus on product related marketing and advertising was expanded during the first three months of the year and at the end of March, the Tourism division was closed as part of a corporate restructuring.

At that time, responsibility for the administration of marketing and advertising was returned to the various operating groups and the

remaining functions of the Tourism division were added to the Public Affairs mandate.



Auditors' Report

To the Ontario Northland Transportation Commission
and to the Minister of Northern Development and Mines

I have audited the consolidated balance sheet of the Ontario Northland Transportation Commission as at December 31, 1994 and the consolidated statements of operations and retained earnings, contributed surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 1994 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



K.W. Leishman, CA
Assistant Provincial Auditor

Toronto, Ontario
March 17, 1995

Consolidated Balance Sheet

(dollars in thousands)

December 31

1994

1993

Assets

Current Assets

Cash and short-term investments	\$	10,729	\$	12,421
Accounts receivable		20,571		15,948
Materials and supplies		9,850		9,121
Prepaid expenses		298		404
		41,448		37,894

Self-Insurance Fund (Note 1) - Market value \$3,045; (1993 - \$4,302) 3,143 3,909

Investment in Capital Assets (Schedule 1) (Note 10) 229,361 235,432

Other Assets (Note 2) 6,692 5,480

\$ 280,644 \$ 282,715

Liabilities and Equity

Current Liabilities

Accounts payable and accrued charges	\$	15,799	\$	15,319
Deferred revenue		233		340
Current portion of long-term debt		1,000		1,000
		17,032		16,659

Provision for Self-Insurance (Note 1) 3,143 3,909

Long-Term Debt (Note 4) 38,208 39,208

58,383 59,776

Commitments and Contingencies (Note 9)

Province of Ontario Equity

Contributed surplus		11,893		13,603
Retained earnings		210,368		209,336

222,261 222,939

\$ 280,644 \$ 282,715

On Behalf of the Commission:



M. K. Rukavina, Chairman



K. J. Wallace, President and CEO

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Statement of Operations and Retained Earnings

(dollars in thousands)

For the year ended December 31	1994	1993
Operating Revenues (Schedule 2)	\$ 149,554	\$ 151,617
Operating Expenses (Schedule 2)	140,754	138,238
Operating Income from Continuing Operations	8,800	13,379
Other Expenses		
General administrative expenses	8,441	10,412
Retirement incentive (Note 5)		2,446
Investment and other income	(749)	(1,633)
Interest expense	76	131
	7,768	11,356
Income from Continuing Operations	1,032	2,023
Discontinued Operations (Note 8)		
Loss from operations of discontinued Transport/Express Services division		(1,057)
Net Income for the year	1,032	966
Retained Earnings - beginning of year	209,336	208,370
Retained Earnings - end of year	\$ 210,368	\$ 209,336

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Statement of Contributed Surplus

(dollars in thousands)

For the year ended December 31	1994	1993
Balance - beginning of year	\$ 13,603	\$ 12,015
Add: Rail passenger equipment upgrade	-	3,300
Less: Amortization	1,710	1,712
Balance - end of year	\$ 11,893	\$ 13,603

Consolidated Statement of Changes in Financial Position

(dollars in thousands)

For the year ended December 31	1994	1993
Operating Activities		
Income from continuing operations	\$ 1,032	\$ 2,023
Loss from discontinued operations (Note 8)		(1,057)
Net income for the year	1,032	966
Items not affecting cash		
- amortization	11,222	10,274
	12,254	11,240
Changes in non-cash working capital balances		
(Increase) decrease in accounts receivable	(4,623)	5,387
(Increase) in materials and supplies	(729)	(113)
Decrease in prepaid expenses	106	108
Increase in accounts payable and accrued charges	480	3,033
(Decrease) increase in deferred revenue	(107)	191
	7,381	19,846
Financing Activities		
Reduction of term bank loan	(1,000)	(1,000)
Proceeds from Province of Ontario		3,300
	(1,000)	2,300
Investing Activities		
Investment in capital assets	(7,822)	(18,247)
Proceeds from sale of capital assets	1,079	1,725
Increase (decrease) in other assets	(1,330)	769
	(8,073)	(15,753)
(Decrease) Increase in Cash and Short-Term Investments during the year	(1,692)	6,393
Cash and Short-Term Investments - beginning of year	12,421	6,028
Cash and Short-Term Investments - end of year	\$ 10,729	\$ 12,421

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Schedule of Investment in Capital Assets

Schedule 1

December 31 (dollars in thousands)	Cost	Accumulated Amortization	1994 Net Book Value	1993 Net Book Value
Rail Services				
Roadway	\$ 135,814	\$ 49,950	\$ 85,864	\$ 87,848
Buildings	34,229	7,492	26,737	27,466
Equipment	62,667	26,595	36,072	39,588
Telecommunications				
Equipment	79,947	46,634	33,313	29,845
Buildings	3,185	1,044	2,141	2,186
Air Services				
Aircraft	15,092	14,453	639	1,661
Buildings	1,869	888	981	1,074
Equipment	2,071	2,071	-	-
Marine Services (Qwen Sound)				
Vessels	20,772	7,889	12,883	13,575
Land and buildings	126	34	92	94
Equipment	244	241	3	3
Bus Services				
Coaches	7,864	3,772	4,092	5,011
Land and buildings	2,000	19	1,981	1,987
Franchises	298	149	149	179
Marine Services (North Bay and Moosonee)				
Vessels	921	614	307	342
Buildings	105	39	66	69
Development				
Land and buildings	6,792	819	5,973	5,707
Equipment	13	12	1	1
Under construction	18,067		18,067	18,796
	\$ 392,076	\$ 162,715	\$ 229,361	\$ 235,432

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Schedule of Operating Revenues and Expenses

Schedule 2

(dollars in thousands)

For the year ended December 31

1994

1993

Rail Services

Sales revenue	\$ 60,072	\$ 55,527
Government reimbursement (Note 6)	13,671	18,574

Total revenue	73,743	74,101
Expense	72,049	68,969

Income from operations	1,694	5,132
------------------------	-------	-------

Telecommunications

Sales revenue (Note 7)	43,786	43,797
Expense	33,981	33,664

Income from operations	9,805	10,133
------------------------	-------	--------

Bus Services

Sales revenue	10,564	10,992
Expense	11,698	11,461

(Loss) from operations	(1,134)	(469)
------------------------	---------	-------

Air Services

Sales revenue	7,928	9,929
Government reimbursement (Note 6)	3,550	3,157

Total revenue	11,478	13,086
Expense	13,455	14,697

(Loss) from operations	(1,977)	(1,611)
------------------------	---------	---------

Marine Services (Owen Sound)

Sales revenue	4,804	4,698
Government reimbursement (Note 6)	1,100	1,100

Total revenue	5,904	5,798
Expense	5,549	5,868

Income (Loss) from operations	355	(70)
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Marine Services (Pelee Island)

Sales revenue	3,322	3,040
Expense	3,020	2,764

Income from operations	302	276
------------------------	-----	-----

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Schedule of Operating Revenues and Expenses

Schedule 2 (continued)

(dollars in thousands)

For the year ended December 31

	1994	1993
Marine Services (North Bay)		
Sales revenue	232	110
Expense	340	282
(Loss) from operations	(108)	(172)
Marine Services (Moosonee)		
Sales revenue	110	107
Government reimbursement (Note 6)	50	80
Total revenue	160	187
Expense	142	132
Income from operations	18	55
Development (Office Building)		
Sales revenue	365	506
Expense	512	393
(Loss) Income from operations	(147)	113
Tourist Facilities (Hannah Bay)		
Sales revenue	-	-
Expense	8	8
(Loss) from operations	(8)	(8)
Total Operations		
Sales revenue	131,183	128,706
Government reimbursement (Note 8)	18,371	22,911
Operating revenues	149,554	151,617
Operating expenses	140,754	138,238
Operating Income	\$ 8,800	\$ 13,379

Summary of Significant Accounting Policies

December 31, 1994

Basis of Accounting These consolidated financial statements are prepared by management in accordance with generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Star Transfer Limited, The Owen Sound Transportation Company, Limited, Air-Date Limited and Nipissing Central Railway Company.

Materials and supplies With the exception of used rail and bulk diesel fuel, all materials and supplies are valued at the most recent price paid. Used rail is shown at unamortized book value determined at the time of retirement and bulk diesel fuel is valued at average cost.

Investment in Capital Assets and Amortization Capital assets are stated at acquisition cost. Amortization is calculated using the straight-line method over the estimated service lives of the assets.

The estimated service lives for principal categories of assets are as follows:

Roadway - main line and branches	20 to 50 years
Railway diesel locomotives	25 years
Railway cars	33 years
Marine vessels	20 to 30 years
Buildings	50 years
Telecommunications equipment	15 years
Aircraft	10 years
Vehicles	3 years
Coaches	12 years
Bus franchises	10 years

The Province of Ontario reimburses the Commission for the cost of certain capital assets purchased for use in operations designated as non-commercial by the Province. The Commission records these assets at their original cost together with an offsetting credit to contributed surplus. Annual amortization on these capital assets is recorded as a reduction of contributed surplus.

Self-Insurance Fund The self-insurance fund assets are stated at acquisition cost.

Other Assets Goodwill is stated at cost and is amortized using the straight-line method over 10 years.

Income Taxes As an agency of the Province of Ontario, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.

Vacation Pay The Commission accounts for vacation entitlement payments on a cash basis.

Notes to Consolidated Financial Statements

December 31, 1994

1 Self-Insurance Fund

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annual contributions to the self-insurance fund consist of a \$100,000 premium paid by the Commission in addition to investment income earned on fund assets. Due to larger than anticipated disbursements from the fund in 1994 resulting from several rail derailments, the Commission approved an increase in the premium paid in 1994 to \$1,200,000.

2 Other Assets

Other assets are comprised of the following:

	1994	1993
Goodwill	\$ 679,000	\$ 797,000
Deferred pension charge (Note 3)	6,013,000	4,683,000
	<u>\$ 6,692,000</u>	<u>\$ 5,480,000</u>

3 Deferred Pension Charge

The Commission is the trustee for its contributory pension plan which covers all permanent staff.

The net cost of pension benefits is actuarially determined on the basis of management's best estimates using the projected benefit method pro-rated over the service lives of the employees. The net cost of pension benefits includes the amortization over the remaining service lives of the plan members of the initial net pension surplus and the 1994 experience gain. Pension plan assets were valued at a market related value based on recognizing the difference between book and market values at each year end over a five year period.

The Commission's share of the net cost of pension benefits earned by employees during the year was \$1,058,000 (1993 - \$3,105,000). In 1994 the Commission funded the amount of \$2,388,000 (1993 - \$2,429,000). The accumulated excess of the funded amount over the net cost of benefits earned is recorded as a deferred pension charge which is included in other assets on the balance sheet.

The actuarial valuation prepared for accounting purposes as at December 31, 1994 disclosed plan assets of \$278,840,000 (1993 - \$264,155,000) and accrued pension benefits of \$253,040,000 (1993 - \$244,979,000). This valuation assumed an expected rate of return on plan assets of 7-1/2 percent and projected pay increases of 5-1/2 percent.

Notes to Consolidated Financial Statements

December 31, 1994

4 Long-Term Debt

Long-term debt is comprised of the following:

	1994	1993
Loan from Province of Ontario, non-Interest bearing with no specific terms of repayment	\$ 35,208,000	\$ 35,208,000
Term bank loan bearing interest at the bank's prime lending rate and with fixed annual principal repayments extending over 2 years	4,000,000	5,000,000
	39,208,000	40,208,000
Less: current portion	1,000,000	1,000,000
	<u>\$ 38,208,000</u>	<u>\$ 39,208,000</u>
Principal repayments due in each of the next two years are as follows:		
1995	\$ 1,000,000	
1996	3,000,000	
	<u>\$ 4,000,000</u>	

5 Retirement Incentive

In connection with cost saving measures brought about by the provincial social contract, incentives to retire were offered to Commission employees in 1993. A total of 57 employees have accepted the offer at a cost of \$2,446,000.

6 Government Reimbursement

In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines, certain operations of the Commission have been designated as non-commercial. The Commission and the Ministry entered into a fixed price contract which defined the amount of compensation which the Province of Ontario provided for the year 1994.

Notes to Consolidated Financial Statements

December 31, 1994

6 Government Reimbursement (continued)

A portion of the operating loss of the weekday passenger train service between North Bay and Toronto is reimbursed by the National Transportation Agency of Canada under Section 270 of the Railway Act.

Details of Government Reimbursement are as follows:

	1994	1993
From Province of Ontario:		
Rail - Passenger Service and Moosonee Branch	\$ 10,614,000	\$ 13,491,000
Air Services	3,550,000	3,157,000
Marine Services (Moosonee)	50,000	80,000
Marine Services (Owen Sound)	1,100,000	1,100,000
	<u>15,314,000</u>	<u>17,828,000</u>
From National Transportation Agency:		
Current years operations	2,544,000	2,430,000
Adjustments from prior years	513,000	2,653,000
	<u>3,057,000</u>	<u>5,083,000</u>
	<u>\$ 18,371,000</u>	<u>\$ 22,911,000</u>

7 Telecommunications Revenue Agreements

The Commission has revenue-sharing agreements with Bell Canada and Northern Telephone Limited, subsidiaries of Bell Canada Enterprises Inc. These revenue-sharing agreements may be terminated by either party after giving 180 days and 60 days prior notice, respectively. Approximately 67 percent (1993 - 71 percent) of telecommunications revenue depend on these agreements.

Notes to Consolidated Financial Statements

December 31, 1994

8 Discontinued Operations

In December 1992, the Commission implemented a plan to discontinue the Transport/Express Services division (Star Transfer Limited). The phase out period extended into the second quarter of 1993. The results of operations of this division for the period January 1, 1993 to April 17, 1993 are included in Discontinued Operations - Loss from operations of discontinued Transport/Express Services division. Net assets of the division were disposed of by way of public auction except for the buildings and land which were retained by the Commission. Net assets of the division were valued at \$1,483,000 as at December 31, 1992. Sales for 1993 amounted to \$819,000.

9 Commitments and Contingencies

Various statements of claim have been issued against the Commission claiming damages. Damages, if any, cannot be estimated at this time and in any event the Commission is of the opinion that these claims would be unfounded or covered by insurance. Should any loss result, it would be charged to operations when the amount is ascertained.

10 Government Assistance

Under an agreement dated February 24, 1992 the Commission is eligible to receive \$4,250,000 in loan proceeds from the Northern Ontario Heritage Fund Corporation, (The Heritage Fund) to assist with the purchases of certain specified capital assets. In accordance with the terms of the agreement, the Commission must lease the assets to Algoma Central Railway for a nominal fee of \$1 per year. The loan is non interest bearing and may be repaid at a mutually agreed date between the Commission and the Heritage Fund by conveyance of the title of the assets to the Heritage Fund. As at December 31, 1993 a total of \$3,966,000 has been received and has been recorded as a reduction to the cost of the capital assets.

11 Comparative Figures

Prior year's figures have been reclassified where necessary to conform to the current year's presentation.

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1995

Annual Report



1995 ANNUAL REPORT

Ontario Northland

The 95th Annual Report
of the Ontario Northland Transportation Commission
for the year ending
December 31, 1995



Ontario

Province of Ontario

Honourable Mike Harris
Premier

Honourable Chris Hodgson
Minister of Northern Development and Mines



The Honourable Henry N.R. Jackman
O.S.T.J., B.A., L.L.B., L.L.D.
Lieutenant Governor of the Province of Ontario

May it please your Honour:

I beg leave to present the 95th annual report of the
Ontario Northland Transportation Commission for the
year ending December 31, 1995.

Respectfully submitted,

A handwritten signature in cursive script, reading "Chris Hodgson".

Chris Hodgson
Minister of Northern Development and Mines



**Ontario
Northland**

The Honourable Chris Hodgson
Minister of Northern Development and Mines
Parliament Buildings
Toronto, Ontario

Sir:

I beg to submit the annual report for the year 1995 of
the Ontario Northland Transportation Commission,
and I have the honour to be, Sir,

Yours faithfully,

A handwritten signature in cursive script, reading "M.K. Rukavina".

M.K. Rukavina
Chair, ONTC

Contents

Ontario Northland Transportation Commission

Introductory Page	1
Minister's Letter	2
Chair's Letter	2
Index - Summary Sheets	3
Commission Members	4
Chair's Message	4
Principal Officers	5
President's Message	5
Bus Services	6
Corporate Services	7
Marine Services	8
norOntair	9
Rail Freight Services	10
Rail Passenger Services	11
Telecommunications	12
Index - Financial Statements	13

Chair's Message

Ontario Northland Transportation Commission

M.K. Rukavina
Chair • Kapuskasing

R.W. Carlyle
Commissioner • New Liskeard

D.S. Hughes
Commissioner • Cochrane

B. Hughson
Commissioner • Chelmsford

P.A. Kelly
Commissioner • North Bay

L. Marin
Commissioner • Timmins

L. Marshall
Commissioner • North Bay

P. Nakogee
Commissioner • Moosonee

W.L. Spottiswood
Commissioner • Fort Frances

B.E. Stevens
Commissioner • North Bay

C.C. White
Commissioner • Birch Island

The Commission again held many of its meetings away from North Bay to provide an opportunity for dialogue with stakeholders, customers and community leaders. Elliot Lake, Sudbury, Manitoulin Island, Timmins and Moosonee/Moose Factory were included in the 1995 schedule.

The visioning exercise was completed and tabled with the Minister. This recognizes: (a) ONTC will have to partner with communities and other businesses in the future rather than act alone in new ventures, (b) provincial funding for non-commercial services will continue to decrease, and (c) a priority list was established for possible curtailment of such services.

This year the focus has been on improved efficiency and making the ONTC less dependent on Government funding. As part of this focus, it was decided it was not necessary to continue the norOntair operation.

The telecommunications division was renamed O.N.Tel for easier public recognition, following deregulation of the industry and federal jurisdiction. Positive earnings by O.N.Tel compensate for current losses from some other Ontario Northland services, thereby maximizing benefits to Northern Ontario. O.N.Tel's policy of matching rates and service features with Bell Canada in southern Ontario keeps Northerners from being disadvantaged by geography or low population density.

A presentation made before the House of Commons Standing Committee on Transportation requested continued federal funding of the Northlander under the proposed Canada Transportation Act, which makes no provision for maintaining rail passenger services. Federal funding assurance is a paramount factor in the preservation of the Northlander service.

In pursuing new business opportunities, Ontario Northland, with the concurrence of the ministry, is an active partner in the Rail*Cycle*North consortium promoting the rail haul of Metro Toronto solid waste to the Adams Mine site near Kirkland Lake.

We anticipate the Ontario government, finalizing a new mandate for ONTC that will be less constricting and have a clearly defined role in development, including partnering with the private sector.

Respectfully submitted on behalf of the Commission.



M. K. Rukavina, Chair

President's Message

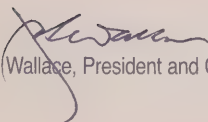
1995 started with an unprecedented labour disruption and ended with a major restructuring of Ontario Northland's operations. The election of a new Government changed the direction of ONTC in several ways, requiring a new look at how we do business in a rapidly changing economic environment.

The initiatives undertaken last year have become even more important to the future of Ontario Northland. Further restructuring and downsizing, preferably through attrition, will be a necessity if Ontario Northland is to return to financially viable operation.

Some other significant factors will have an effect on our future, including;

- Metro Toronto's decision on disposal of solid waste could provide the rail freight revenue needed to restore viability to that service
- new Canada Transportation Act eliminates passenger train subsidies
- bus deregulation in Ontario, scheduled for Jan. 1, 1998
- continued pressure by our customers to reduce freight rates
- expansion on Internet service demands
- a need for innovative marketing efforts in both freight and passenger rail service, including intermodal opportunities

Effective transportation and communications services are vital to the economic well-being of Northern Ontario. It will be our responsibility in the coming months to ensure Ontario Northland is equal to the challenge.



K. J. Wallace, President and CEO

Principal Officers

K.J. Wallace
President & CEO

S.G. Carmichael
Vice-President
Finance and Administration

R.S. Hutton
Vice-President
Telecommunications Services
(January - October)

Vice-President
O.N. Tel
(October - December)

E. Marasco
Vice-President
Passenger Services

K.J. Moorehead
Vice-President
Rail Services

T. O'Connell
Counsel

Bus Services

Description

- scheduled service between Toronto and northeastern Ontario via North Bay and Sudbury as far north as Hearst
- charter and tour services are provided throughout North America
- BPX (Bus Parcel Express) is handled on the scheduled service

Highlights

- ridership declined by approximately 8% in 1995, resulting in a loss of \$283,000, a marked improvement from 1994's loss of \$1,134,000
- a full review of the operation was undertaken in an effort to reduce costs and increase operating efficiencies
- scheduled services were discontinued on the Sault Ste. Marie, Wawa and Timmins route and between Toronto and Orillia
- 5 new buses, all equipped with wheelchair lifts, were added to the fleet and 12 older buses were sold, reducing fleet size from 42 to 35
- in conjunction with other major intercity carriers, efforts were made to prepare for deregulation of the industry



Description

- Human Resources provides a wide range of services including benefits and worker compensation, training and development, and labour relations
- Purchasing handles all buying, inventory management and control functions
- Finance includes a wide range of functions such as payroll, accounts payable and receivable, budgets, audits, etc.
- Corporate Computer Services Group is responsible for systems development and computer processing
- Corporate Affairs and Planning is responsible for corporate planning, property management, communications and public affairs
- Legal Services handles all legal matters including insurance and licencing, document preparation and litigation

Highlights

- a contract settlement was reached with the Associated Shopcraft Unions after a three-month lockout
- a comprehensive management consultation program and new training initiatives were undertaken to introduce the concept of a more involved workforce
- the new point-of-sale automated ticketing system for the various stations and agencies was activated
- an automated inventory, purchasing and requisition system was implemented
- a property management system was introduced to ensure the effective management of all ONTC land and buildings, surplus to operating requirements
- a gain of nearly \$1 million was realized on the sale of surplus property, including lands acquired from CN with the purchase of the rail line between Cochrane and Hearst



Marine Services

Description

- ONTC's subsidiary, the Owen Sound Transportation Company, provides provincially mandated ferry services to Manitoulin Island and Moosonee, as well as operating the Pelee Island ferry service under contract for the Ministry of Transportation
- Manitoulin Island - the M.V. Chi-Cheemaun (capacity 143 vehicles and 638 passengers) provides ferry service between Tobermory at the tip of the Bruce Peninsula and South Baymouth on Manitoulin Island. The M.V. Nindawayma remains out of service due to continued reductions in ridership
- Moosonee - barge ferry service, using the vessel Manitou Island II, operates between Moosonee and Moose Factory Island from breakup to freezeup
- Pelee Island - the M.V. Jiimaan (capacity 40 vehicles and 400 passengers) and the M.V. Pelee Islander (capacity 14 vehicles and 268 passengers) provide a ferry service connecting Kingsville and Leamington, Ontario with Pelee Island and Sandusky, Ohio

Highlights

- the City of North Bay took over operation of the Chief Commanda II continuing the sightseeing cruises on Lake Nipissing and the French River
- the Chi-Cheemaun had a slight decrease in ridership, but reductions in operating costs resulted in a positive net contribution
- the Nindawayma was tendered for a bareboat charter late in the year
- new engines were purchased for the Manitou II, but due to late delivery, will not be installed until 1996
- the Pelee Island ferry service continued to be a smooth operation, providing a \$300,000 contribution to ONTC's bottom line and showing a 1% traffic increase



Description

- provided scheduled air service throughout Northern Ontario with a Dash 8 service linking Hearst, Kapuskasing, Timmins, North Bay, Sudbury, Sault Ste. Marie, Thunder Bay, Fort Frances and Winnipeg and a Twin Otter connector service to Chapleau, Earleton, Elliot Lake, Geraldton, Gore Bay, Hornepayne, Kirkland Lake, and Wawa
- airline fleet consisted of two Dash 8's (37-passenger), five Twin Otters (18-passenger), and one Navajo (6-passenger)

Highlights

- 70,000 passengers were carried in 1995
- the year's operating loss was \$1,880,000, after government reimbursement of \$4,060,000
- Piper Navajo aircraft was sold in October
- in November 1995 norOntair was removed from ONTC's list of provincially mandated services
- it was announced that norOntair would cease operations in March 1996, saving the ONTC at least \$4 million annually in operating losses



Rail Freight Services

Description

- provides rail freight transportation to and from northeastern Ontario and northwestern Quebec on 700 miles of track with rail connections to CN and CP at North Bay, CN at Rouyn-Noranda and ACRI at Hearst
- major industrial customers comprise 90% of freight traffic
- North Bay shops carry out contract work for rolling stock rebuilds, coaches, locomotives, etc.

Highlights

- handled approximately 41,500 carload shipments, generating \$43,322,000 in revenue
- uninterrupted rail freight transportation continued despite a three-month lockout of Mechanical department employees (Associated Shopcraft Unions), which began in November 1994
- placed in service and fully utilized the concentrate loading ramp at Rouyn-Noranda, which was constructed specifically to attract new business
- the second of three locomotives being rebuilt by Ontario Northland shop employees at North Bay was completed for use on the Northlander
- main line work programs were completed, including the replacement of 9 miles of rail and 47,000 crossties to maintain a safe and efficient track structure
- work continued on the rebuilding of the 98-car fleet of 100-ton gondola cars, the most highly utilized of our freight equipment
- a new loading ramp was built at Cochrane to improve service for our customers in Moosonee



Rail Passenger Services

Description

- Northlander - a daily, except Saturday, service between Cochrane and Toronto with bus connections to Hearst and Timmins
- Little Bear Train - mixed train connection between Cochrane and Moosonee with thrice-weekly service from September to June and twice-weekly service during July and August
- Polar Bear Express - a tourist excursion train between Cochrane and Moosonee operating daily, except Friday, for 10 weeks ending on Labour Day weekend
- other services include the Cochrane Station Inn, a 23-room hotel; the Cochrane Station restaurant; 8 bus/rail stations; the North Bay Station's Whistle Stop Restaurant and the Toronto Sales Office

Highlights

- ridership on the Northlander totalled 42,485, an increase of 31% over 1994, even though it did not operate in January and February due to the labour dispute
- the Little Bear carried a total of 20,430 passengers, an increase of 6.7% over the previous year
- a total of 17,105 passengers rode the Polar Bear Express, an improvement of 4% over 1994 totals
- the Cochrane Station Inn maintained an occupancy rate of 64% and positive bottom-line results



Description

- interexchange telecommunications carrier in northeastern Ontario, providing a full range of long distance services
- provides local services to the areas of Moosonee/Moose Factory, Temagami and Marten River
- markets a complete range of datacommunications and networking products and services including one-stop shopping for turnkey, total solutions through its knowledge of telecommunications and computer systems
- through its business alliance with IBM, the Systems group supports a wide spectrum of mid-range computer hardware and software applications and provides IT (information technology) consulting services solutions
- delivers CBC program audio/video services to northeastern Ontario and provides private mobile services primarily for large utilities

Highlights

- long distance message volumes grew by over 8.5% in 1995 with a 2.4% growth in revenues, while data related services revenues increased by more than 13%
- local telephone customers numbered 3,200 by year end, up 4.5% from the previous year
- introduced ONLink, a full featured Internet Service Provider, in May
- introduced the division's new name "O.N.Tel" in October with an award-winning campaign entitled "Thank You"
- a new form of settlement (CAT - carrier access tariff) was established with Northern Telephone Ltd.
- continued fibre optic installations north to Moosonee and west to Hearst as part of the long-term plan to establish a fully digital, fibre optic network
- more than 20,000 (up 185% from 1994) residential and business customers received volume discount and rewards in excess of \$2.1 million in 1995 through their subscription to our long distance savings packages



Contents

Ontario Northland Transportation Commission Consolidated Financial Statements

For the year ended December 31, 1995

Auditors' Report	14
Financial Statements	
Consolidated Balance Sheet	15
Consolidated Statement of Operations and Retained Earnings	16
Consolidated Statement of Contributed Surplus	17
Consolidated Statement of Changes in Financial Position	18
Consolidated Schedule of Investment in Capital Assets - Schedule 1	19
Consolidated Schedule of Operating Revenues and Expenses - Schedule 2	20 - 21
Summary of Significant Accounting Policies	22 - 23
Notes to Consolidated Financial Statements	24 - 27

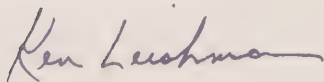
Auditors' Report

To the Ontario Northland Transportation Commission and to the
Minister of Northern Development and Mines

I have audited the consolidated balance sheet of Ontario Northland Transportation Commission as at December 31, 1995 and the consolidated statements of operations and retained earnings, contributed surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 1995 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



K.W. Leishman, CA
Assistant Provincial Auditor

Toronto, Ontario
March 29, 1996

Ontario Northland Transportation Commission
Consolidated Balance Sheet

(dollars in thousands)

December 31

1995

1994

Assets

Current Assets

Cash and short-term investments	\$ 9,289	\$ 10,729
Accounts receivable	22,618	20,571
Inventory	9,078	9,850
Prepaid expenses	441	298
	<u>41,426</u>	<u>41,448</u>

Self-Insurance Fund (Note 1) - Market value \$4,258; (1994 - \$3,045)

4,000 3,143

Investment in Capital Assets (Schedule 1) (Notes 8 and 11)

231,322 229,361

Other Assets (Note 2)

7,548 6,692

\$ 284,296 \$ 280,644

Liabilities and Equity

Current Liabilities

Accounts payable and accrued charges	\$ 15,362	\$ 15,799
Deferred revenue	318	233
Current portion of long-term debt (Note 4)	4,000	1,000
	<u>19,680</u>	<u>17,032</u>

Provision for Self-Insurance (Note 1)

4,000 3,143

Long-Term Debt (Note 4)

35,208 38,208

58,888 58,383

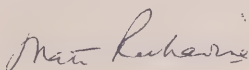
Commitments and Contingencies (Note 9)


Province of Ontario Equity

Contributed surplus	12,674	11,893
Retained earnings	212,734	210,368
	<u>225,408</u>	<u>222,261</u>

\$ 284,296 \$ 280,644

On Behalf of the Commission:


M. K. Rukavina, Chair


K. J. Wallace, President and CEO

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Ontario Northland Transportation Commission
Consolidated Statement of Operations and Retained Earnings
(dollars in thousands)

For the year ended December 31	1995	1994
Operating Revenues (Schedule 2)	\$ 140,302	\$ 138,076
Operating Expenses (Schedule 2)	127,117	124,181
Operating Income from Continuing Operations	13,185	13,895
Other Expenses		
Amortization (Schedule 2)	10,523	10,412
Inventory write-off (Note 5)	2,071	-
Investment and other income	(2,870)	(749)
Interest expense (Schedule 2)	387	463
(Gain) loss on sale of capital assets (Schedule 2)	(2,125)	760
	7,986	10,886
Income from Continuing Operations	5,199	3,009
Discontinued Operations (Note 8)		
Loss from operations of discontinued Air Services division	(1,880)	(1,977)
Loss on disposal of Air Services division, including provision for severance payments to employees	(953)	-
Loss from Discontinued Operations	(2,833)	(1,977)
Net Income for the year	2,366	1,032
Retained Earnings - beginning of year	210,368	209,336
Retained Earnings - end of year	\$ 212,734	\$ 210,368

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Ontario Northland Transportation Commission
Consolidated Statement of Contributed Surplus
(dollars in thousands)

For the year ended December 31			1995	1994
Balance - beginning of year	\$	11,893	\$	13,603
Add: Rail passenger equipment upgrade		1,786		-
Less: Amortization		1,005		1,710
Balance - end of year	\$	12,674	\$	11,893

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Ontario Northland Transportation Commission
Consolidated Statement of Changes in Financial Position

(dollars in thousands)

For the year ended December 31

	1995	1994
Operating Activities		
Income from continuing operations	\$ 5,199	\$ 3,009
Loss from discontinued operations (Note 8)	(2,833)	(1,977)
Net income for the year	2,366	1,032
Items not affecting cash		
- amortization (Note 8)	10,723	10,462
- (gain) loss on sale of capital assets	(2,125)	760
	10,964	12,254
Changes in non-cash working capital balances		
Increase in accounts receivable	(2,047)	(4,623)
Decrease (increase) in inventory	772	(729)
(Increase) decrease in prepaid expenses	(143)	106
(Decrease) increase in accounts payable and accrued charges	(437)	480
Increase (decrease) in deferred revenue	85	(107)
	9,194	7,381
Financing Activities		
Reduction of term bank loan	-	(1,000)
Proceeds from Province of Ontario	1,786	-
	1,786	(1,000)
Investing Activities		
Investment in capital assets	(15,684)	(7,822)
Proceeds from sale of capital assets	4,389	1,079
Increase in other assets	(1,125)	(1,330)
	(12,420)	(8,073)
Decrease Cash and Short-Term Investments during the year	(1,440)	(1,692)
Cash and Short-Term Investments - beginning of year	10,729	12,421
Cash and Short-Term Investments - end of year	\$ 9,289	\$ 10,729

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Ontario Northland Transportation Commission
Consolidated Schedule of Investment in Capital Assets
Schedule 1
(dollars in thousands)

December 31

			1995	1994
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Rail Services				
Roadway	\$ 136,367	\$ 52,509	\$ 83,858	\$ 85,864
Buildings	34,716	8,223	26,493	26,737
Equipment	68,202	27,707	40,495	36,072
Under Construction	13,584	-	13,584	16,898
Telecommunications				
Equipment	81,278	50,208	31,070	33,313
Buildings	3,185	1,120	2,065	2,141
Under Construction	6,873	-	6,873	1,030
Marine Services (Owen Sound)				
Vessels	20,772	8,580	12,192	12,883
Land and buildings	126	36	90	92
Equipment	244	241	3	3
Bus Services				
Coaches	8,702	3,633	5,069	4,092
Land and buildings	2,000	25	1,975	1,981
Franchises	298	179	119	149
Under Construction	149	-	149	139
Marine Services (North Bay and Moosonee)				
Vessels	921	650	271	307
Buildings	105	42	63	66
Under Construction	38	-	38	-
Development				
Land and buildings	6,792	952	5,840	5,973
Equipment	12	12	-	1
Air Services				
Aircraft	14,356	14,236	120	639
Buildings	1,869	982	887	981
Equipment	2,071	2,071	-	-
Under Construction	68	-	68	-
	\$ 402,728	\$ 171,406	\$ 231,322	\$ 229,361

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Ontario Northland Transportation Commission
Consolidated Schedule of Operating Revenues and Expenses
Schedule 2
(dollars in thousands)

For the year ended December 31

	1995	1994
Rail Services		
Sales revenue	\$ 58,519	\$ 60,072
Government reimbursement (Note 6)	15,291	13,671
Operating revenue	73,810	73,743
Operating expense	68,862	66,211
Operating Income from continuing operations	4,948	7,532
Amortization	5,131	5,079
(Gain) loss on sale of capital assets	(2,026)	759
Income from operations	1,843	1,694
Telecommunications		
Sales revenue (Note 7)	46,313	43,786
Operating expense	31,789	30,535
Operating Income from continuing operations	14,524	13,251
Amortization	3,718	3,453
Gain on sale of capital assets	(6)	(7)
Income from operations	10,812	9,805
Bus Services		
Sales revenue	10,284	10,564
Operating expense	9,552	10,437
Operating Income from continuing operations	732	127
Amortization	760	916
Interest expense	348	337
(Gain) loss on sale of capital assets	(93)	8
Loss from operations	(283)	(1,134)
Marine Services (Owen Sound)		
Sales revenue	4,787	4,804
Government reimbursement (Note 6)	1,150	1,100
Operating revenue	5,937	5,904
Operating expense	5,365	5,188
Operating Income from continuing operations	572	716
Amortization	362	361
Income from operations	210	355
Marine Services (Pelee Island)		
Sales revenue	3,446	3,322
Operating expense	3,146	3,020
Income from operations	300	302
Marine Services (North Bay)		
Sales revenue	-	232
Operating expense	55	320
Operating Loss from continuing operations	(55)	(88)
Amortization	20	20
Loss from operations	(75)	(108)

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Ontario Northland Transportation Commission
Consolidated Schedule of Operating Revenues and Expenses
Schedule 2 (continued)
(dollars in thousands)

For the year ended December 31

	1995	1994
Marine Services (Moosonee)		
Sales revenue	\$ 108	\$ 110
Government reimbursement (Note 6)	50	50
Operating revenue	158	160
Operating expense	132	141
Operating Income from continuing operations	26	19
Amortization	1	1
Income from operations	25	18
Development (Office Building)		
Sales revenue	354	365
Operating expense	295	324
Operating Income from continuing operations	59	41
Amortization	133	138
Interest expense	-	50
Loss from operations	(74)	(147)
Tourist Facilities (Hannah Bay)		
Sales revenue	-	-
Operating expense	-	8
Loss from operations	-	(8)
Administration		
Sales revenue	-	-
Operating expense	7,921	7,997
Operating Loss from continuing operations	(7,921)	(7,997)
Amortization	398	444
Interest expense	39	76
Loss from operations	(8,358)	(8,517)
Total Operations		
Sales revenue	123,811	123,255
Government reimbursement (Note 6)	16,491	14,821
Operating revenue	140,302	138,076
Operating expense	127,117	124,181
Operating Income from continuing operations	13,185	13,895
Amortization	10,523	10,412
Interest expense	387	463
(Gain) Loss on sale of capital assets	(2,125)	760
Income from Operations	\$ 4,400	\$ 2,260

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Ontario Northland Transportation Commission Summary of Significant Accounting Policies

December 31, 1995

Basis of Accounting

These consolidated financial statements are prepared by management in accordance with generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Star Transfer Limited, The Owen Sound Transportation Company, Limited, Air-Dale Limited and Nipissing Central Railway Company.

Revenue Recognition

Transportation revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier. Revenues from other sources are recognized when earned, with the exception of federal government reimbursements. Reimbursements upon audit verification of yearly losses are recorded on a cash basis. Advance payments made prior to final determination of losses are recorded on an accrual basis.

Materials and supplies

With the exception of used rail and bulk diesel fuel, all materials and supplies are valued at the most recent price paid. Used rail is shown at unamortized book value determined at the time of retirement and bulk diesel fuel is valued at average cost.

Investment in Capital Assets and Amortization

Capital assets are stated at acquisition cost. Amortization is calculated using the straight-line method over the estimated service lives of the assets.

The estimated service lives for principal categories of assets are as follows:

Roadway - main line and branches	20 to 50 years
Railway diesel locomotives	25 years
Railway cars	33 years
Marine vessels	20 to 30 years
Buildings	50 years
Telecommunications equipment	15 years
Aircraft	10 years
Vehicles	3 years
Coaches	12 years
Bus franchises	10 years

The Province of Ontario reimburses the Commission for the cost of certain capital assets purchased for use in operations designated as non-commercial by the Province. The Commission records these assets at their original cost together with an offsetting credit to contributed surplus. Annual amortization on these capital assets is recorded as a reduction of contributed surplus.

***Ontario Northland Transportation Commission
Summary of Significant Accounting Policies (continued)***

December 31, 1995

Self-Insurance Fund

The self-insurance fund assets are stated at acquisition cost.

Other Assets

Goodwill is stated at cost and is amortized using the straight-line method over 10 years.

Income Taxes

As an agency of the Province of Ontario, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

December 31, 1995

1 Self-Insurance Fund

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annual contributions to the self-insurance fund consist of a \$100,000 premium paid by the Commission in addition to investment income earned on fund assets. Due to larger than anticipated disbursements from the fund in 1994 resulting from several rail derailments, the Commission approved an increase in the premium paid in 1995 to \$518,000 (1994 - \$1,200,000). Fund assets are comprised of investments in federal and provincial government bonds.

2 Other Assets

Other assets are comprised of the following:

	1995	1994
Goodwill	\$ 410,000	\$ 679,000
Deferred pension charge (Note 3)	7,138,000	6,013,000
	<u>\$ 7,548,000</u>	<u>\$ 6,692,000</u>

3 Deferred Pension Charge

The Commission is the trustee for its contributory pension plan which covers all permanent staff.

The net cost of pension benefits is actuarially determined on the basis of management's best estimates using the projected benefit method pro-rated over the service lives of the employees. The net cost of pension benefits includes the amortization over the remaining service lives of the plan members of the initial net pension surplus and the 1995 experience gain. Pension plan assets were valued at a market related value based on recognizing the difference between book and market values at each year end over a five year period.

The Commission's share of the net cost of pension benefits earned by employees during the year was \$1,325,000 (1994 - \$1,058,000). In 1995 the Commission funded the amount of \$2,450,000 (1994 - \$2,388,000). The accumulated excess of the funded amount over the net cost of benefits earned is recorded as a deferred pension charge which is included in other assets on the balance sheet.

The actuarial valuation prepared for accounting purposes as at December 31, 1995 disclosed plan assets of \$296,600,000 (1994 - \$278,840,000) and accrued pension benefits of \$268,423,000 (1994 - \$253,040,000). This valuation assumed an expected rate of return on plan assets of 6-1/2 percent and projected pay increases of 4-1/2 percent.

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

December 31, 1995

4 Long-Term Debt

Long-term debt is comprised of the following:

	1995	1994
Loan from Province of Ontario, non-interest bearing with no specific terms of repayment.	\$ 35,208,000	\$ 35,208,000
Term bank loan bearing interest at the bank's prime lending rate and with fixed annual principal repayments.	4,000,000	4,000,000
	39,208,000	39,208,000
Less: current portion	4,000,000	1,000,000
	\$ 35,208,000	\$ 38,208,000

Principal repayment due next year is as follows:

1996	\$ 4,000,000
------	--------------

5 Inventory Write-Off

In 1995 work ceased on a capital project which had originally called for the re-manufacture of 20 used commuter cars along with associated auxiliary power units. In connection with the early termination of this project, \$2,071,000 of inventory purchased specifically for the re-manufacture of cars has been declared surplus and is accordingly being written off. Should any gain result on the disposition of this inventory, it will be charged to operations when the sale occurs.

6 Government Reimbursement

In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines, certain operations of the Commission have been designated as non-commercial. The Commission and the Ministry entered into a fixed price contract which defined the amount of compensation which the Province of Ontario provided for the year 1995. On November 30, 1995, the provincial government announced in its Fiscal and Economic Statement, a plan to reduce reimbursements to the Commission. Reductions are expected to amount to \$7,000,000 and \$4,000,000 in 1996 and 1997, respectively.

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

December 31, 1995

6 Government Reimbursement (continued)

A portion of the operating loss of the weekday passenger train service between North Bay and Toronto is reimbursed by the National Transportation Agency of Canada under Section 270 of the Railway Act. The federal government has announced its intention to revoke the Railway Act and replace it with the Canada Transportation Act. Negotiations between the Commission and Transport Canada, which will fix the amount and nature of reimbursement under the act, are expected to conclude in 1996.

Details of Government Reimbursement are as follows:

	1995	1994
From Province of Ontario:		
Rail - Passenger Service and Moosonee Branch	\$ 9,910,000	\$ 10,614,000
Marine Services (Moosonee)	50,000	50,000
Marine Services (Owen Sound)	1,150,000	1,100,000
	11,110,000	11,764,000
From National Transportation Agency:		
Current year's operations	2,757,000	2,544,000
Adjustments from prior years	2,624,000	513,000
	5,381,000	3,057,000
	16,491,000	14,821,000
Discontinued Operations		
(Province of Ontario - Air Services)	4,060,000	3,550,000
	\$ 20,551,000	\$ 18,371,000

7 Telecommunications Revenue Agreements

The Commission has revenue-sharing agreements with Bell Canada and Northern Telephone Limited, subsidiaries of Bell Canada Enterprises Inc. These revenue-sharing agreements may be terminated by either party after giving 180 days and 60 days prior notice, respectively. Approximately 66 percent (1994 - 67 percent) of telecommunications revenue depend on these agreements.

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

December 31, 1995

8 Discontinued Operations

In December 1995, the Commission implemented a plan to discontinue the Air Services division (norOntair). The phase out period will extend into the second quarter of 1996. The results of operations of this division for the period January 1, 1995 to December 31, 1995 and January 1, 1994 to December 31, 1994 are included in Discontinued Operations - Loss from operations of discontinued Air Services division. Net assets of the division will be disposed of by way of public tender. As of the statement date, a successful bid has been accepted in the amount of \$13.6 million. Assets of the division were valued at \$1,007,000 as at December 31, 1995 with a net book value of Nil when offset against related contributed surplus. Included in the loss from the Air Services division is \$200,000 (1994 - \$50,000) in amortization for the year. Sales for 1995 amounted to \$9,100,000 (1994 - \$7,928,000). Government reimbursement for the year amounted to \$4,060,000 (1994 - \$3,550,000).

9 Commitments and Contingencies

Litigation

The Commission was named as a defendant in a claim. In January 1996, the Commission paid damages of \$9.1 million as specified in the December 1995 court ruling in favour of the plaintiff. Subsequent to making the payment the Commission was successful in reaching a settlement with specified conditions with the Province of Ontario and a full reimbursement was obtained. Depending on future cash flow available from other sources, some or all of the \$9.1 million may have to be repaid.

Various other statements of claim have been issued against the Commission claiming damages. Damages, if any, cannot be estimated at this time and in any event the Commission is of the opinion that these claims would be unfounded or covered by insurance. Should any loss result, it would be charged to operations when the amount is ascertained.

10 Subsequent Event

In connection with impending changes to government reimbursements and as a response to the general economic climate, incentives to retire were extended to a number of the Commission's employees in January of 1996. To date, a total of 136 employees have accepted the offer at an estimated cost of \$4,300,000 which will be reflected in the accounts during the 1996 fiscal period.

11 Government Assistance

Under an agreement dated February 24, 1992 the Commission became eligible to receive \$4,250,000 in loan proceeds from the Northern Ontario Heritage Fund Corporation, (The Heritage Fund) to assist with the purchases of certain specified capital assets. In accordance with the terms of the agreement, the Commission leased the assets to Algoma Central Railway for a nominal fee of \$1 per year. The loan is non interest bearing and may be repaid at a mutually agreed date between the Commission and the Heritage Fund by conveyance of the title of the assets to the Heritage Fund. As at December 31, 1995 a total of \$4,151,000 has been received and has been recorded as a reduction to the cost of the capital assets.

12 Comparative Figures

Prior year's figures have been reclassified where necessary to conform to the current year's presentation.

***Ontario Northland Transportation Commission
Statement of Employees Paid in Excess of \$100,000***

For the year ended December 31, 1995

Name	Position	Salary	Taxable Benefits
K.J. Wallace	President & CEO	\$ 139,205	\$ 10,493
K.J. Moorehead	Vice President - Rail Services	115,033	1,130
R.S. Hutton	Vice President - Telecommunications	108,758	1,130
E. Marasco	Vice President - Passenger Services	102,881	1,026

Prepared under the Public Sector Salary Disclosure Act 1996.

2000
2001

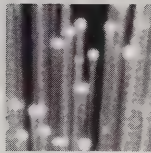


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ANNUAL REPORT



1996 ANNUAL REPORT

Ontario Northland

Chairman's Message

President's Message

Our Services

Board Directors

Our People

Our Fleet

Rail Freight Services

Rail Passenger Services

Commercial Services

Appendix A Report

Appendix B

Index

The Ontario Northland Transportation Commission (ONTC) was established in 1902 to develop the Temiskaming and Northern Ontario Railway. From its initial mandate of constructing a 110-mile rail line between North Bay and the Tri-Town area, ONTC's mandate has been expanded over the years to meet the needs of Northern Ontario businesses and residential communities. Headquartered in North Bay, ONTC provides a variety of transportation and telecommunications services with approximately 1,060 full-time staff.

ONTC, a Schedule Two Agency of the Province of Ontario, is a development agency which promotes sustainable economic growth in Northern Ontario. ONTC develops and operates transportation and communication links across the area, and delivers services including those mandated by the Province. The company's purpose is to ensure that Northern Ontario's transportation and telecommunications infrastructure is competitive, creating an attractive and modern region where businesses and communities can grow and prosper.

Operating primarily in northeastern Ontario, ONTC's non-commercial (mandated) services include the Little Bear and Polar Bear Express (freight and passenger rail service between Cochrane and Moosonee), the Chi-Cheemaun (ferry service between the Bruce Peninsula and Manitoulin Island), and the Manitou Island II (barge/ferry service between Moosonee and Moose Factory Island). The company also operates the Northlander (passenger rail service between Cochrane and Toronto). Commercial services include rail freight, bus passenger service, O.N.Tel and the Pelee Island ferry service (operated under contract for the Ministry of Transportation).

Each of the services is examined in greater detail, including yearly highlights, on the following pages.



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TABLE OF CONTENTS

»»» Ontario Northland

Chair’s Message4

President’s Message5

Bus Services6

Marine Services7

norOntair8

O.N.Tel9

Rail Freight Services10

Rail Passenger Services11

Corporate Services12

Auditor’s Report13

Financials.....14 - 27

Salary Disclosure.....28

»»» Ontario Northland

The 96th Annual Report
of the Ontario Northland Transportation Commission
for the year ending
December 31, 1996



Ontario

Province of Ontario

Honourable Mike Harris

Premier

Honourable Chris Hodgson

Minister of Northern Development and Mines



The Honourable Hillary Weston
Lieutenant Governor of the Province of Ontario

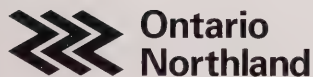
May it please your Honour:

I beg leave to present the 96th annual report of the Ontario Northland Transportation Commission
for the year ending December 31, 1996.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Chris Hodgson".

Chris Hodgson
Minister of Northern Development and Mines



The Honourable Chris Hodgson
Minister of Northern Development and Mines
Parliament Buildings
Toronto, Ontario

Sir:

I beg to submit the annual report for the year 1996 of the Ontario Northland Transportation Commission,
and I have the honour to be, Sir,

Yours faithfully,

A handwritten signature in black ink, appearing to read "M. K. Rukavina".

M. K. Rukavina
Chair, ONTC

MESSAGE FROM THE COMMISSION CHAIR



The year saw the appointment of eight new members to the ten-person Commission in July. The government stressed the business and corporate background of the appointees, in order to guide Ontario Northland through a period where cost effectiveness and "bottom-line" will determine the future of ONTC.

After 25 years of providing safe and reliable service to communities in Northern Ontario, norOntair operated its last flight on March 29th of this year. Initially started as a demonstration project, norOntair had fulfilled its mandate and it was decided that private sector carriers could readily step in and meet the air service needs of the various communities.

A modified interim replacement service was put in place for those communities left without private sector service and subsequently a two-year partnership arrangement was developed between ONTC and those communities, with the latter to determine the type of transportation service they seek at a cost that is affordable.

The government requested that the Commission develop a multi-year business plan that will demonstrate the organization's capability for long-term viability. This project has occupied the efforts of a number of employees representing a cross-section of the corporation, the majority of Commission members' time and the services of a consulting firm. A government decision on the plan is expected in 1997.

1997 will be a crucial year in shaping both the future of Ontario Northland and its relationship to the northern economy.

Submitted on behalf of the Commission.

A handwritten signature in cursive script, reading "Matt Rukavina".

Matt Rukavina, Chair

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

M. K. Rukavina
Chair (Jan - Dec)

E. C. Beck
Commissioner - Moose Factory (Jul - Dec)

V. Monestime Belter
Commissioner - Mattawa (Jul - Dec)

W. P. Clement
Commissioner - Sudbury (Jul - Dec)

R. Grant
Commissioner - New Liskeard (Jul - Dec)

S. L. Hacio
Commissioner - Thunder Bay (Jul - Dec)

D. S. Hughes
Commissioner - Cochrane (Jul - Dec)

B. Hughson
Commissioner - Chelmsford (Jan)

P. A. Kelly
Commissioner - North Bay (Jan - Mar)

L. Marin
Commissioner - Timmins (Jan)

K. Okell
Commissioner - North Bay (Jul - Dec)

L. Richards
Commissioner - Timmins (Jul - Dec)

R. J. Richardson
Commissioner - North Bay (Jul - Dec)

W. L. Spottiswood
Commissioner - Fort Frances (Jan - Jul)

B. E. Stevens
Commissioner - North Bay (Jan - Jul)

C. C. White
Commissioner - Birch Island (Jan - Jul)

MESSAGE FROM THE PRESIDENT



In previous Annual Reports, I have indicated that Ontario Northland was facing a fast changing business environment, which presented us with many and varied challenges. 1996 was no exception as we prepared for the changing regulatory practices, which are imminent in both the bus and telecommunications sectors. These changes are a dramatic departure from the past regulations and, if we are to succeed in these business ventures, we have to adjust in how we manage ourselves as we move to a more competitive business environment.

It is also clear that the philosophy of our owners is to examine and question everything that government is involved in and then ensure that the delivery of service, if it is to be through government, is provided in the most cost effective and efficient manner. Finally, on top of all these changes, our customers are expecting lower tariffs, so that they can remain competitive in their marketplaces.

After taking all of these challenges into consideration, and in light of our financial projections, in January we launched a Voluntary Early Retirement Program, which resulted in the most significant organizational restructuring in our 94-year history. In the final analysis, our total work force complement was reduced by 167 positions through early retirements and everyone is to be congratulated for their efforts in making this possible. It is most gratifying to see how our employees throughout Ontario Northland are tackling head on this changing environment so that we can restore not only our fiscal obligations, but also our ability to provide the cost effective services that our customers require and our owners expect.

A handwritten signature in dark ink, appearing to read 'John Wallace'.

John Wallace

President and Chief Executive Officer

PRINCIPAL OFFICERS

K. J. Wallace
President & CEO

S. G. Carmichael
Vice-President
Finance and Administration

R. S. Hutton
Vice-President
O.N.Tel

R. G. Leach
Vice-President
Transportation Services
(Sep - Dec)

E. Marasco
Vice-President
Passenger Services
(Jan - Aug)

K. J. Moorehead
Vice-President
Rail Services
(Jan - Sep)

T. O'Connell
Counsel

BUS SERVICES



The department operates scheduled bus service between Toronto and northeastern Ontario through North Bay, Sudbury and as far north as Hearst. Charter and tour services are provided throughout North America.

Ontario Northland continued to conduct a full review of its bus

operations in an effort to reduce costs and increase operating efficiencies.

Bus Services worked in conjunction with other major inter-city carriers in an effort to prepare for deregulation of the bus transportation industry in the province.

HIGHLIGHTS

- scheduled bus services carried 279,629 passengers, a decline in ridership of 7.4% from the previous year
- bus charter operations reported 1,929 charter days
- BPX service increased by 1.6%
- the remaining goodwill on the Gray Coach acquisition was written off, resulting in a \$342,000 loss in 1996
- two new buses were added to the fleet; five older buses were sold, reducing the total fleet size to 32 from 35

BPX (Bus Parcel Express) is handled through scheduled service.

MARINE SERVICES

Marine Services are provided by the ONTC through its subsidiary, the Owen Sound Transportation Company. The company operates provincially mandated ferry services to Manitoulin Island and Moosonee. In addition, the OSTC operates ferry service to Pelee Island under contract with the Ontario Ministry of Transportation.

HIGHLIGHTS

- a major engine failure on the Chi-Cheemaun forced cancellation of the final three weeks of the sailing season
- Chi-Cheemaun ridership was 200,501 passengers and 74,184 vehicles, down about 8% from the previous year, at the point where the season was cut short due to mechanical problems
- efforts to sell the Nindawayma continued in 1996
- the City of North Bay continued to operate the Chief Commanda II with sightseeing cruises on Lake Nipissing and the French River
- new engines were installed in the Manitou II barge
- the Pelee Island ferry service carried a total of 111,844 passengers and 35,822 vehicles, a 3.4% decline in traffic from 1995 levels



The M.V. Chi-Cheemaun provides ferry service between Tobermory at the tip of the Bruce Peninsula and South Baymouth on Manitoulin Island. The Chi-Cheemaun carries 638 passengers and has a capacity of 143 vehicles.

The M.V. Nindawayma remains out of service, due to continued reductions in ridership.

The Manitou Island II provides barge ferry service between Moosonee and Moose Factory Island, from ice breakup in the spring to freeze-up in early winter.

The M.V. Jiimaan and the M.V. Pelee Islander provide ferry service, connecting Kingsville and Leamington, Ontario with Pelee Island and Sandusky, Ohio.

NORONTAIR

After 25 years of service to Northern Ontario, norOntair, the ONTC's air service division, operated its last flight on March 29, 1996.

Having fulfilled its mandate to provide air service to communities in Northern Ontario, it was announced that norOntair would cease operations early in the year. This move would allow existing private sector carriers to step in and meet the air service needs of the affected communities in the North.

norOntair was removed from ONTC's list of mandated services in November, 1995.

HIGHLIGHTS

- celebrated 25 years of safe, reliable service after the first scheduled flight on October 18, 1971
- norOntair passengers totalled 15,381 as of March 29, 1996, the last day of regular operations for the airline



norOntair provided scheduled air service throughout Northern Ontario with Dash 8 service linking Hearst, Kapuskasing, Timmins, North Bay, Sudbury, Sault Ste. Marie, Thunder Bay, Fort Frances and Winnipeg.

Twin Otter service was provided to Chapleau, Earltown, Elliot Lake, Geraldton, Gore Bay, Hornepayne, Kirkland Lake and Wawa.

The norOntair fleet consisted of two Dash 8s (37 passenger) and four Twin Otters (18 passenger).

Serving a population of 150,000 people and covering a 200,000 square kilometre area, O.N.Tel is the thriving telecommunications arm of the Ontario Northland Transportation Commission.

As an interexchange telecommunications carrier in northeastern Ontario, O.N.Tel provides a full range of long distance services. The division also provides local services in Moosonee, Moose Factory, Temagami and Marten River.

Healthy growth in this sector continues to exert a positive influence on O.N.Tel's bottom line, demonstrating the ONTC division's exciting potential for long-term revenue stability in the new economy.

In 1996, long distance message volumes grew by over 8.5%, maintaining a constant revenue level. Data

services revenues increased by more than 26%. More than 24,000 residential and business customers received volume discounts and rewards in excess of \$3.6 million, through their subscription to our long distance savings packages.

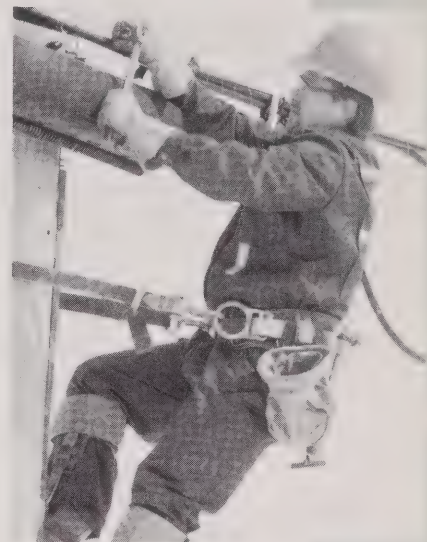
The O.N.Tel network is well served by the latest SONET fiber technology (Synchronous Optical Network).

O.N.Tel markets a complete range of data-communications and networking products and services, including one-stop shopping for turnkey, total solutions through its knowledge of telecommunications and computer systems.

A strategic business alliance with IBM enables the Systems group to support a wide spectrum of mid-range computer hardware and software applications. The Systems group also provides Information Technology consulting services. IBM recognized the ONTC with a partnership award for outstanding revenue growth and customer satisfaction.

O.N.Tel delivers CBC programming (audio/video) services to northeastern Ontario. It also provides private mobile services, primarily for large utilities.

ONLink is O.N.Tel's highly successful Internet service provider, offering a full range of services in over 60 communities throughout northeastern Ontario.



HIGHLIGHTS

- ONLink business grew by 235%
- Long distance volumes grew by more than 8.5%; data-related services increased by more than 26%
- Local telephone customers up 3.7 % from previous year to 3,383
- Contribution payments to local companies of \$18.6 million
- Systems group revenues grew by 100%
- Customer responses to O.N.Tel's surveys indicate high levels of customer satisfaction with O.N.Tel's staff and services
- Completed fiber systems from Cochrane to Hearst

RAIL FREIGHT SERVICES



Rail Freight Services provides freight transportation on 700 miles of track to and from northeastern Ontario and northwestern Quebec. The ONTC rail system connects to CN and CP at North Bay, CN at Rouyn-Noranda and ACRI at Hearst.

In 1996, the department handled approximately 42,600 carload shipments, generating \$43,682,000 in revenue. Major industrial customers comprised a full 90% of all freight traffic on the rail system.

Rail Freight Services continued a major rebuilding program on its fleet of 98 gondola cars.

Reduced crew, "cabooseless" operations were implemented in December, a significant change for ONTC.

There were several other initiatives, including mainline work programs for the replacement of three miles of rail and 38,000 crossties.

The shops in North Bay engage in a variety of contract work for external customers, including rolling stock rebuilds, coaches and locomotives.

HIGHLIGHTS

- two major derailments on the Temagami Subdivision in July caused service interruptions and resulted in approximately \$2.6 million in damages
- train crews were reduced with the introduction of "cabooseless" operations in December
- constructed a new bridge at Crow Creek on the Kapuskasing Subdivision
- program to rebuild the 98-car fleet of 100-ton gondola cars continued in 1996, with 62 cars completed by year end
- the addition of two five-ton trucks and four hi-rail pickup trucks finalized mechanization plans for our mainline section
- construction was started on a shelter for the concentrate loading facility at Rouyn-Noranda
- commenced lease process for 50 100-ton box cars to carry metal shipments from Kidd with delivery completion by early 1997

RAIL PASSENGER SERVICES



Ontario Northland operates passenger trains between Toronto and Moosonee.

The Northlander operates Sunday

through Friday between Cochrane and Toronto with bus connections to/from Hearst and Timmins.

The Polar Bear Express is a popular tourist excursion train, which runs between Cochrane and Moosonee.

The train operates six days a week (Saturday through Thursday), from the end of June until Labour Day each year.

The Little Bear is a mixed train (passengers and freight) running between Cochrane and Moosonee three times a week from September to June, and twice a week in July and August while the Polar Bear Express is in operation.

Passenger Services is also responsible for the operation of the Cochrane Station Inn, a 23-room hotel; the Cochrane Station Restaurant; eight bus/rail stations; the Whistle Stop restaurant at The Station in North Bay and the Toronto sales office.

HIGHLIGHTS

- ridership on the Northlander totaled 44,364, an increase of 4.3% over 1995
- the Little Bear carried 20,615 passengers, an increase of 0.9% over the previous year
- the Polar Bear Express carried 16,245 passengers, a reduction of 5% from the previous year's total
- the Cochrane Station Inn had an annual occupancy rate of 54.5%, peaking in the summer months of July and August at 94% and 98% respectively
- the first collective agreement covering the Cochrane Station Inn staff was negotiated with the CAW

CORPORATE SERVICES



Corporate Services is comprised of eight departments, which are described below.

Human Resources provides a wide range of services, including

benefits and worker compensation, safety, training and development, and labour relations.

Purchasing handles all buying, disposal of assets, inventory management and control functions.

Finance includes a wide range of functions such as payroll, treasury, accounts payable and receivable, budgets, audits, and passenger and freight revenue accounting.

The Corporate Computer Services Group is responsible for systems development, computer processing and records management.

Legal Services handles all legal matters, including insurance and licensing, document preparation and litigation.

Corporate Realty is responsible for the management of ONTC properties, including sales of surplus land and buildings.

Corporate Planning activities include the development of strategic plans, capital plans and opinion surveys of stakeholders, the public and customers.

Public Affairs handles all corporate communications functions, including public and media relations and relations with government agencies. The coordination of french language services is also handled by this department.

HIGHLIGHTS

- a new rail freight revenue settlement system was introduced
- the retirement incentive program was developed and introduced to the organization in order to reduce costs. Within Corporate Services 18 employees participated
- new voice mail and e-mail systems were fully implemented during the year
- contract settlements were reached with the Associated Railway Unions and the O.N.Tel bargaining unit
- "Conductor only" agreements were reached, resulting in savings through reduced train crew complements
- efforts continued to secure a long-term contract for the movement of solid waste
- new management programs were introduced

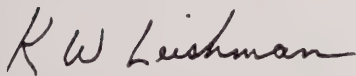
AUDITOR'S REPORT

**To the Ontario Northland Transportation Commission and to the
Minister of Northern Development and Mines**

I have audited the consolidated balance sheet of the Ontario Northland Transportation Commission as at December 31, 1996 and the consolidated statements of operations and retained earnings, contributed surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



K. W. Leishman, CA
Assistant Provincial Auditor

Toronto, Ontario

March 27, 1997

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

CONSOLIDATED BALANCE SHEET

(dollars in thousands)

December 31

1996

1995
(Note 15)

Assets

Current Assets

Cash and short-term investments	\$ -	\$ 9,289
Accounts receivable	18,049	21,941
Inventory	8,735	9,078
Prepaid expenses	242	441
	<hr/> 27,026	<hr/> 40,749

Self-Insurance Fund (Note 1)

- Market value \$3,962; (1995 - \$4,258)	3,566	4,000
--	-------	-------

Long-term receivables

691	677
-----	-----

Investment in Capital Assets (Schedule 1) (Notes 11 and 14)

226,549	231,322
---------	---------

Other Assets (Note 2)

7,110	7,548
-------	-------

<hr/> \$ 264,942	<hr/> \$ 284,296
------------------	------------------

Liabilities and Equity

Current Liabilities

Bank loans and overdrafts (Note 3)	\$ 5,612	\$ -
Accounts payable and accrued charges	14,052	15,362
Deferred revenue	123	318
Current portion of long-term debt (Note 5)	-	4,000
	<hr/> 19,787	<hr/> 19,680

Provision for Self-Insurance (Note 1)

3,566	4,000
-------	-------

Long-Term Debt (Note 5)

35,208	35,208
--------	--------

<hr/> 58,561	<hr/> 58,888
--------------	--------------

Commitments and Contingencies (Note 13)


Province of Ontario Equity

Contributed surplus	13,058	12,674
Retained earnings	193,323	212,734
	<hr/> 206,381	<hr/> 225,408
	<hr/> \$ 264,942	<hr/> \$ 284,296

On Behalf of the Commission:



M. K. Rukavina, Chair



K. J. Wallace, President and CEO

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

(dollars in thousands)

For the year ended December 31

	1996	1995 (Note 15)
Operating Revenues (Schedule 2)	\$ 135,215	\$ 139,403
Operating Expenses (Schedule 2)	128,433	124,757
Operating Income from Continuing Operations	6,782	14,646
Other Expenses		
Amortization (Schedule 2)	11,204	10,523
Retirement incentive (Note 6)	5,664	-
Write down of capital assets (Note 9)	5,520	-
Regulatory approval (Note 10)	1,200	-
Inventory write-off	-	2,071
Investment and other income	(919)	(893)
Interest expense (Schedule 2)	264	387
Loss (gain) on sale of capital assets (Schedule 2)	263	(1,642)
	23,196	10,446
(Loss) Income from Continuing Operations	(16,414)	4,200
Discontinued Operations (Note 11)		
Loss from operations of discontinued Air Services division	(2,997)	(881)
Loss on disposal of Air Services division, including provision for severance payments to employees	-	(953)
Loss from Discontinued Operations	(2,997)	(1,834)
Net (Loss) Income for the year	(19,411)	2,366
Retained Earnings - beginning of year	212,734	210,368
Retained Earnings - end of year	\$ 193,323	\$ 212,734

ONTARIO NORTHLAND TRANSPORTATION COMMISSION CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

(dollars in thousands)

For the year ended December 31	1996	1995 (Note 15)
Balance - beginning of year	\$ 12,674	\$ 11,893
Add: Contributions from the Province of Ontario (Note 12)	1,395	-
Rail passenger equipment upgrade	-	1,786
Less: Amortization	1,011	1,005
Balance - end of year	\$ 13,058	\$ 12,674

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(dollars in thousands)

For the year ended December 31

	1996	1995 (Note 15)
Operating Activities		
(Loss) income from continuing operations	\$ (16,414)	\$ 4,200
Loss from discontinued operations (Note 11)	(2,997)	(1,834)
Net (loss) income for the year	(19,411)	2,366
Items not affecting cash		
- amortization (Note 11 and Schedule 2)	11,222	10,723
- loss (gain) on sale of capital assets	263	(2,641)
- loss on write-down of capital assets (Note 9)	5,520	-
	(2,406)	10,448
Changes in non-cash working capital balances		
Decrease (increase) in accounts receivable	3,878	(2,047)
Decrease in inventory	343	772
Decrease (increase) in prepaid expenses	199	(143)
Decrease in accounts payable and accrued charges	(1,310)	(437)
(Decrease) increase in deferred revenue	(195)	85
	509	8,678
Financing Activities		
Reduction of term bank loan	(4,000)	-
Proceeds from Province of Ontario (Note 12)	1,395	1,786
	(2,605)	1,786
Investing Activities		
Investment in capital assets	(15,222)	(15,684)
Proceeds from sale of capital assets	2,389	4,905
Decrease (increase) in other assets	28	(1,125)
	(12,805)	(11,904)
Decrease Cash and Short-Term Investments during the year	(14,901)	(1,440)
Cash and Short-Term Investments - beginning of year	9,289	10,729
(Bank Loans and Overdraft) Cash and Short-Term Investments - end of year	\$ (5,612)	\$ 9,289

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

CONSOLIDATED SCHEDULE OF INVESTMENT IN CAPITAL ASSETS

SCHEDULE 1

(dollars in thousands)

December 31

1996

1995
(Note 15)

	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Rail Services				
Roadway	\$ 143,512	\$ 54,550	\$ 88,962	\$ 83,858
Buildings	34,648	8,915	25,733	26,493
Equipment	70,617	27,362	43,255	40,495
Under construction	5,612	-	5,612	13,584
Telecommunications				
Equipment	90,855	53,708	37,147	31,070
Buildings	3,187	1,197	1,990	2,065
Under construction	3,785	-	3,785	6,873
Air Services				
Aircraft	-	-	-	120
Buildings	-	-	-	887
Equipment	-	-	-	-
Under construction	-	-	-	68
Marine Services (Owen Sound)				
Vessels	16,372	9,272	7,100	12,192
Land and buildings	126	39	87	90
Equipment	244	241	3	3
Under construction	74	-	74	-
Bus Services				
Coaches	8,776	3,798	4,978	5,069
Land and buildings	850	-	850	1,975
Franchises	-	-	-	119
Under construction	149	-	149	149
Marine Services (North Bay and Moosonee)				
Vessels	921	675	246	271
Buildings	105	45	60	63
Under construction	51	-	51	38
Development				
Land and buildings	8,508	2,041	6,467	5,840
Equipment	1	1	-	-
	\$ 388,393	\$ 161,844	\$ 226,549	\$ 231,322

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

CONSOLIDATED SCHEDULE OF OPERATING REVENUES AND EXPENSES

SCHEDULE 2

(dollars in thousands)

For the year ended December 31

	1996	1995 (Note 15)
Rail Services		
Sales revenue	\$ 58,009	\$ 57,620
Government reimbursement (Note 7)	10,298	15,291
Operating revenue	68,307	72,911
Operating expense	70,479	66,446
Operating (loss) income from continuing operations	(2,172)	6,465
Amortization	5,403	5,187
Loss (gain) on sale of capital assets	1,020	(565)
(Loss) income from operations	(8,595)	1,843
Telecommunications		
Sales revenue (Note 8)	48,290	46,313
Operating expense	32,474	31,786
Operating income from continuing operations	15,816	14,527
Amortization	3,716	3,722
Loss (gain) on sale of capital assets	14	(7)
Income from operations	12,086	10,812
Bus Services		
Sales revenue	9,448	10,284
Operating expense	8,850	9,549
Operating income from continuing operations	598	735
Amortization	1,269	762
Interest expense	195	348
Gain on sale of capital assets	(145)	(92)
Loss from operations	(721)	(283)
Marine Services (Owen Sound)		
Sales revenue	4,412	4,787
Government reimbursement (Note 7)	890	1,150
Operating revenue	5,302	5,937
Operating expense	5,701	5,365
Operating income from continuing operations	(399)	572
Amortization	362	362
(Loss) income from operations	(761)	210
Marine Services (Pelelee Island)		
Sales revenue	3,234	3,446
Operating expense	2,940	3,146
Income from operations	294	300

ONTARIO NORTHLAND TRANSPORTATION COMMISSION
CONSOLIDATED SCHEDULE OF OPERATING REVENUES AND EXPENSES
SCHEDULE 2 (CONTINUED)

(dollars in thousands)

For the year ended December 31

1996

1995
(Note 15)

Marine Services (North Bay)

Sales revenue	\$ 4	\$ -
Operating expense	15	54
Operating loss from continuing operations	(11)	(54)
Amortization	21	21
Loss from operations	(32)	(75)

Marine Services (Moosonee)

Sales revenue	121	108
Government reimbursement (Note 7)	50	50
Operating revenue	171	158
Operating expense	161	133
Operating income from continuing operations	10	25
Amortization	-	-
Income from operations	10	25

Development (Office Building)

Sales revenue	459	354
Operating expense	273	295
Operating income from continuing operations	186	59
Amortization	127	133
Gain on sale of capital assets	(626)	(978)
Income (loss) from operations	685	904

Administration

Sales revenue	-	-
Operating expense	7,540	7,983
Operating loss from continuing operations	(7,540)	(7,983)
Amortization	306	336
Interest expense	69	39
Loss from operations	(7,915)	(8,358)

Total Operations

Sales revenue	123,977	122,912
Government reimbursement (Note 7)	11,238	16,491
Operating revenues	135,215	139,403
Operating expense	128,433	124,757
Operating income from continuing operations	6,782	14,646
Amortization	11,204	10,523
Interest expense	264	387
Loss (gain) on sale of capital assets	263	(1,642)

(Loss) Income from Operations

\$ (4,949) \$ 5,378

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

December 31, 1996

Basis of Accounting

These consolidated financial statements are prepared by management in accordance with generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Ontario Northland International Consulting Services Inc, Northern Canada Transportation Limited, Star Transfer Limited, The Owen Sound Transportation Company, Limited, Air-Dale Limited and Nipissing Central Railway Company.

Revenue Recognition

Transportation revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier. Revenues from other sources are recognized when earned, with the exception of federal government reimbursements. Reimbursements, upon audit verification of yearly losses are recorded on a cash basis. Advance payments made prior to final determination of losses are recorded on an accrual basis.

Materials and Supplies

With the exception of used rail and bulk diesel fuel, all materials and supplies are valued at the most recent price paid. Used rail is shown at unamortized book value determined at the time of retirement and bulk diesel fuel is valued at average cost.

Investment in Capital Assets and Amortization

Capital assets are stated at acquisition cost. Amortization is calculated using the straight-line method over the estimated service lives of the assets.

The estimated service lives for principal categories of assets are as follows:

Roadway - main line and branches	20 to 50 years
Railway diesel locomotives	25 years
Railway cars	33 years
Marine vessels	20 to 30 years
Buildings	50 years
Telecommunications equipment	15 years
Vehicles	3 years
Coaches	12 years

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

December 31, 1996

The Province of Ontario reimburses the Commission for the cost of certain capital assets purchased for use in operations designated as non-commercial by the Province. The Commission records these assets at their original cost together with an offsetting credit to contributed surplus. Annual amortization on these capital assets is recorded as a reduction of contributed surplus.

Self-Insurance Fund

The self-insurance fund assets are stated at acquisition cost.

Income Taxes

As an agency of the Province of Ontario, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1996

1 Self-Insurance Fund

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annual contributions to the self-insurance fund consist of a \$100,000 premium paid by the Commission in addition to investment income earned on fund assets. Due to larger than anticipated disbursements from the fund in 1996 resulting from several rail derailments, the Commission approved an increase in the premium paid in 1996 to \$1,500,000 (1995 - \$518,000). Subsequent annual premiums will be increased to \$500,000 until fund stabilizes. Fund assets are comprised of investments in federal and provincial government bonds.

2 Other Assets

Other assets are comprised of the following:

	1996	1995
Goodwill	\$ -	\$ 410,000
Deferred pension charge (Note 4)	7,110,000	7,138,000
	<u>\$ 7,110,000</u>	<u>\$ 7,548,000</u>

The unamortized balance of goodwill was written off in 1996 due to impending deregulation of the bus transportation industry in Ontario.

3 Operating Line of Credit

At December 31, 1996, the Commission had a \$8,000,000 demand operating line of credit bearing interest at prime. The line is secured by a letter of guarantee reimbursement agreement, operating credit line agreement and bankers acceptance agreement. Included in bank loans and overdrafts at year end are draws on the line of \$1,941,000.

4 Deferred Pension Charge

The Commission is the trustee for its contributory pension plan which covers all permanent staff.

The net cost of pension benefits is actuarially determined on the basis of management's best estimates using the projected benefit method pro-rated over the service lives of the employees. The net cost of pension benefits includes the amortization over the remaining service lives of the plan members of the initial net pension surplus and the 1996 experience gain. Pension plan assets were valued at a market related value based on recognizing the difference between book and market values at each year end over a five year period.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1996

4 Deferred Pension Charge (continued)

The Commission's share of the net cost of pension benefits earned by employees during the year was \$2,403,000 (1995 - \$1,325,000). In 1996 the Commission funded the amount of \$2,376,000 (1995 - \$2,450,000). The accumulated excess of the funded amount over the net cost of benefits earned is recorded as a deferred pension charge which is included in other assets on the balance sheet.

The actuarial valuation prepared for accounting purposes as at December 31, 1996 disclosed market value of plan assets of \$325,672,000 (1995 - \$296,600,000) and present value of accrued pension benefits of \$297,424,000 (1995 - \$268,423,000). This valuation assumed an expected rate of return on plan assets of 6-1/2 percent and projected pay increases of 4-1/2 percent.

5 Long-Term Debt

Long-term debt is comprised of the following:

	1996	1995
Loan from Province of Ontario, non-interest bearing with no specific terms of repayment.	\$ 35,208,000	\$ 35,208,000
Term bank loan bearing interest at the bank's prime lending rate and with fixed annual principal repayments.	-	4,000,000
	35,208,000	39,208,000
Less: current portion	-	4,000,000
	\$ 35,208,000	\$ 35,208,000

6 Retirement Incentive

In connection with changes to government reimbursement and as a response to the general economic climate, incentives to retire were extended to a number of the Commission's employees in 1996. A total of 167 employees accepted the offer at a cost of \$5,664,000.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1996

7 Government Reimbursement

In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines, certain operations of the Commission have been designated as non-commercial. The Commission and the Ministry entered into a fixed price contract which defined the amount of compensation which the Province of Ontario provided for the year 1996. In 1995, the provincial government announced a plan to reduce reimbursements to the Commission. Reductions amount to \$7,000,000 in 1996 and \$4,000,000 in 1997.

A portion of the operating loss of the weekday passenger train service between North Bay and Toronto is reimbursed by the National Transportation Agency of Canada under Section 270 of the Railway Act. The federal government revoked the Railway Act during 1996 and replaced it with the Canada Transportation Act. Negotiations between the Commission and Transport Canada concluded in 1996. The amount of annual reimbursement has been fixed at \$2,500,000 for a 5 year period.

Details of Government Reimbursement are as follows:

	1996	1995
From Province of Ontario:		
Rail - Passenger Service and Moosonee Branch	\$ 7,230,000	\$ 9,910,000
Marine Services (Moosonee)	50,000	50,000
Marine Services (Owen Sound)	890,000	1,150,000
	<u>8,170,000</u>	<u>11,110,000</u>
From National Transportation Agency:		
Current years operations	1,342,000	2,757,000
Adjustments from prior years	476,000	2,624,000
	<u>1,818,000</u>	<u>5,381,000</u>
From Transport Canada:		
Current years operations	1,250,000	-
Continuing Operations	11,238,000	16,491,000
Discontinued Operations (Province of Ontario - Air Services)	-	4,060,000
	<u>\$ 11,238,000</u>	<u>\$ 20,551,000</u>

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1996

8 Telecommunications Revenue Agreements

The Commission has a traffic agreement with Bell Canada that covers all long distance services that either originate within and terminate outside or originate outside and terminate within the Commission's service area. This agreement may be terminated by either party after giving 180 days notice.

9 Write down of Capital Assets

During 1996 steps were taken to dispose of the ferry vessel Nindawayma and certain land and buildings associated with bus operations. It has become apparent that the net realizable value of these capital assets have declined to a level below carrying values. Accordingly, the ferry vessel Nindawayma has been written down by \$4,400,000 and the land and buildings have been written down by \$1,120,000.

10 Regulatory Approval

In order to secure new rail freight traffic, the Commission is participating in the funding of the regulatory approval process required to obtain a license to use the former Adams Mine as a solid waste disposal site. The costs are being shared between the Commission and two other companies. In 1996 the Commission's share amounted to \$1,200,000 and there is a commitment for an additional \$400,000 in 1997. The amounts are being charged to operations in the year of payment.

11 Discontinued Operations

In December 1995, the Commission implemented a plan to discontinue the Air Services division (norOntair). The phase out period extended into 1996 as a replacement service for the communities affected was sought. The results of operations of this division for the period January 1, 1996 to December 31, 1996 and January 1, 1995 to December 31, 1995 are included in Discontinued Operations - Loss from operations of discontinued Air Services division. Net assets of the division were disposed of by way of public tender. A successful bid for the sale of aircraft was accepted in the amount of \$9.4(US) million during 1996, but conclusion of the sale did not take place until the first quarter of 1997. Other assets of the division were disposed of during the year in the amount of \$1,395,000. Assets of the division retained by the Commission were valued at \$794,000 as at December 31, 1996 with a net book value of Nil when offset against related contributed surplus. Included in the loss from the Air Services division is \$18,000 (1995 - \$200,000) in amortization and Nil (1995 - \$999,000) in gain on sale of capital assets for the year. Sales for the year amounted to \$1,920,000 (1995 - \$9,100,000). Government reimbursement for the year amounted to Nil (1995 - \$4,060,000).

The Commission contracted for the provision of alternate transportation for some of the affected communities until other arrangements could be made. This contractual arrangement extended into the second quarter of 1997. Upon completion of this arrangement, the Commission will provide funds directly to some of the affected communities in order that they may arrange alternate modes of transport.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1996

12 Contributions from the Province of Ontario

Proceeds on disposition of \$1,395,000 from the sale of capital assets as a result of the closure of the Air Services division (norOntair) are being treated as an injection of surplus from the Province of Ontario. This approach has been taken because the Commission was reimbursed the cost of the assets by the Province of Ontario on their original purchase. The net book value of the assets was essentially Nil when offset by unamortized contributed surplus. The funds received upon sale of these capital assets are to be earmarked for the restructuring of operations, pursuit of new viable business opportunities and the recapitalization of equipment.

13 Commitments and Contingencies

Litigation

The Commission was named as a defendant in a claim. In January 1996, the Commission paid damages of \$9.1 million as specified in the December 1995 court ruling in favour of the plaintiff. Subsequent to making the payment the Commission was successful in reaching a settlement with specified conditions with the Province of Ontario and a full reimbursement was obtained. Depending on future cash flow available from other sources, some or all of the \$9.1 million may have to be repaid.

Various other statements of claim have been issued against the Commission claiming damages. Damages, if any, cannot be estimated at this time and in any event the Commission is of the opinion that these claims would be unfounded or covered by insurance. Should any loss result, it would be charged to operations when the amount is ascertained.

14 Government Assistance

Under an agreement dated February 24, 1992 the Commission became eligible to receive \$4,250,000 in loan proceeds from the Northern Ontario Heritage Fund Corporation (the Heritage Fund), to assist with the purchases of certain specified capital assets. In accordance with the terms of the agreement the Commission must lease the assets to Algoma Central Railway for a nominal fee of \$1 per year. The loan is non interest bearing and may be repaid at a mutually agreed date between the Commission and the Heritage Fund by conveyance of the title of the assets to the Heritage Fund. As at December 31, 1996 a total of \$4,151,000 has been received and has been recorded as a reduction of the cost of the capital assets.

15 Financial Instruments

At December 31, 1996, the fair market value of the Commission's cash and short term investments, accounts receivable, bank loans and overdrafts, accrued charges and deferred revenue approximated their carrying value. A portion of the Commission's accounts payable will be settled in US dollars within twelve months of the date of these financial statements.

The effect of these transactions on the financial results of the Commission is expected to be immaterial.

16 Comparative Figures

Prior year's figures have been reclassified where necessary to conform to the current year's presentation.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

STATEMENT OF EMPLOYEES PAID IN EXCESS OF \$100,000

December 31, 1996

Name	Position	Salary	Taxable Benefits
K. J. Wallace	President and C.E.O.	\$ 139,205	\$ 8,423
K. J. Moorehead	Vice President Rail Services	105,412	943
R. S. Hutton	Vice President Telecommunications (O.N.Tel)	108,758	1,199
S. G. Carmichael	Vice President Finance and Administration	105,911	1,126

Prepared under the Public Sector Salary Disclosure Act, 1996

OHIO AND NORTHLAND TRANSPORTATION COMMISSION
STATEMENT OF EMPLOYEES PAID IN DISCHARGE OF DUTY

Statement of Employees Paid in Discharge of Duty			
Employee Name	Position	Salary	Monthly Amount
Mr. J. H. Smith	Chief Executive Officer	\$ 139,205	\$ 8,423
Mr. J. M. Smith	Vice President Rail Services	105,412	943
Mr. J. H. Smith	Vice President Telecommunications (O.N.Tel)	108,758	1,199
Mr. J. H. Smith	Manager of Finance and Administration	105,911	1,126
Total Employees Paid in Discharge of Duty			



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